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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 7, 1983 VOLUME XX, NUMBER 40

As Recovery Strengthens . . .

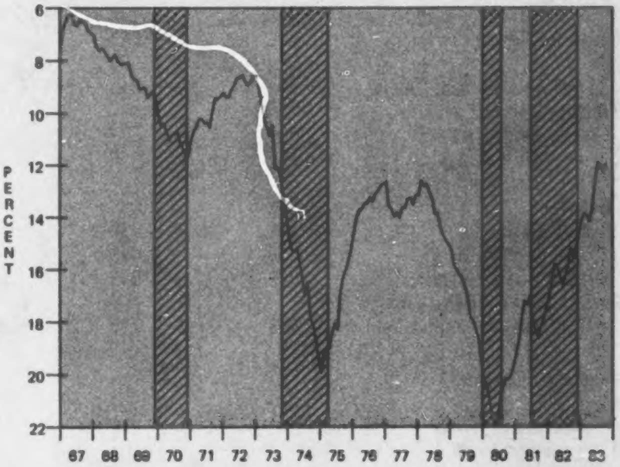
With the Holiday shopping season now underway, it is possible that American consumers will indulge in a shopping spree not seen in at least five years. The brighter economic outlook, slowing of inflation, growing employment and incomes should spur consumers to loosen their purse strings and step up spending. This would set the stage for a strong Holiday sales season—the time when retailers ring up a major portion of their annual sales.

Spending by consumers is usually influenced to a large extent by the near-term outlook for the economy in general, and their employment and income prospects in particular. On all counts, consumers have reasons to cheer. As the U.S. recovery begins its second year, the economy is enjoying strong growth, yet modest inflation, and consumers are reaping the benefits. Personal incomes are growing faster than prices, leading to the gains in buying power necessary for most people to lift their rates of spending. After adjustment for inflation and taxes, "real disposable" income rose at an annual rate of 6.7 percent in the third quarter—the strongest advance in two years. At this time last year, real disposable income was shrinking.

Unemployment is down. October's reading puts the key civilian unemployment rate exactly two percentage points below the post-World War II peak of 10.8 percent recorded in December, 1982. And while the jobless rate is still high by postwar standards, the number of people with jobs is close to a record level. What is more, the employment rate (the number of people employed as a percent of the population over 16 years old) is 58.3 percent, compared with its postwar average of 57 percent.

Last year at this time, as the economy was touching the low point of the recession, unemployment was climbing to its postwar high. The year before, the unemployment rate had begun to climb and there was a feeling that hard times lay ahead. And while the unemployment rate was declining during the second half of 1980, buying power was suffering because of the double-digit rate of inflation. The discomfort index—the sum of the inflation and unemployment rates—was nearly 22 percent at this time three years ago; today it is less than 12 percent—the lowest in ten years (see chart). Future employment prospects remain bright. The Conference Board reports that the volume of help-wanted advertising in U.S. newspapers—a harbinger of additional hiring prospects—rose again in the latest month.

DISCOMFORT INDEX
(INVERTED SCALE)



. . . Consumers Loosen Purse Strings . . .

It is hardly surprising, then, that consumer spirits and buying intentions are brightening. The Conference Board's buying plans index, which measures consumers' intentions to purchase automobiles, houses, large appliances or home furnishings in the next six months, recently posted a substantial gain. Meanwhile, the latest University of Michigan survey shows that consumers are more willing to incur new debt and use savings today than at any other time in the past four years.

And, indeed, consumers have already begun to buy more. The nation's automakers reported that sales in October ran at a seasonally adjusted seven million unit annual rate—31 percent above year-ago levels. Whereas earlier this year the surge in domestic auto sales was primarily a response to incentives offered by automakers and dealers, the absence of these

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today, while sales remain strong, reflects consumers' confidence in their personal economic prospects and their willingness to satisfy pent-up needs for new cars. In addition, the stability of oil prices and ample supplies of gasoline have lessened their influence on people's decisions to purchase cars. This has shifted the preference of many buyers to larger cars, which are more profitable to produce and sell. Not only are more people buying larger cars but they also are buying more accessories, increasing average car prices.

Consumers are stepping up their spending on other big-ticket items as well. In September, sales of new single-family homes, for example, climbed 13.7 percent above their August pace, and almost 34 percent above last year's levels. Overall, consumer expenditures advanced at an annual rate of 7.6 percent in the third quarter. Although this increase was just over half of the 15.1 percent gain in the previous quarter, most of the slowdown stemmed from reduced expenditures on motor vehicles due largely to a shortage of popular models. Spending on non-auto durables rose at a 9.2 percent annual rate while spending on non-durables advanced about ten percent.

Consumers have the ability to raise their outlays even higher. In the last 15 months, households have enjoyed a steady rise in real net financial assets as strong gains in the stock and bond markets improved considerably people's balance sheets. At

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/26/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.058	+ .482	+16.363
Loans to Depository Inst.	.568	– .009	+ .116
Float	1.250	– .501	– .481
Total Reserve Bank Credit	169.101	+ .240	+15.324
Treasury Deposits with Federal Reserve Banks	5.829	+ .571	+ 3.055
Currency Outside Banks	146.065	– .559	+13.417
Member Bank Reserves:			
Required	38.162	+ .068	– 2.607
Excess (Deficiency)	.376	+ .030	+ .057
Total Reserves Held	38.538	+ .098	– 2.550
Net Borrowed Reserves	.043	+ .046	+ .179
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.108	– 2.777	+ 9.905

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	518.3	+ 2.1‡	+ 10.6‡
M2 (September '83)	2,145.1	+ 5.8	+ 11.9
M3 (September '83)	2,543.4	+ 7.1	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 11/4/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.70%	8.85%	9.10%
* Federal Agencies	8.85	9.15	9.75
* Project Notes–Taxfree (46% Taxable Equivalent)	9.44	9.81	10.65
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.45	9.50	10.05

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.12%	Dec.	9.15%
15- 29 days	9.12	Jan.	9.15
30- 59 days	9.12	Feb.	9.15
60- 89 days	9.12	Mar.	9.15
90-179 days	8.91	Apr.	9.15
180-239 days	8.91	May	9.10
240-270 days	8.75		

‡Industrial Paper–Prime			
30- 89 days	9.15%	†Federal Funds	
90-120 days	9.15	Effective Rate	9.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.9	9.7	– 1.0
Change in Consumer Prices (new series)*	Sep '83	6.0%	4.8%	1.2%
Change in Producer Prices*	Sep '83	2.4%	4.8%	1.2%
Civilian Employment (Thousands of Persons) †	Oct '83n	101,928	101,945	99,176
Unemployment as % of Civilian Labor Force †	Oct '83n	8.8%	9.3%	10.5%
Personal Income*	Sep '83	$ 2,781	$ 2,756	$ 2,597
Leading Indicators Composite Index (1967=100) †	Sep '83	160.2	158.7	137.5
Industrial Production Index (1967=100) †	Sep '83	153.7	151.4	137.3
Net Change in Consumer Installment Credit †	Aug '83	$ 3.39	$ 4.84	$ 0.26
U.S. Merchandise Trade Balance †	Sep '83	–$ 5.81	–$ 7.19	–$ 4.20
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Sep '83	1,652	1,909	1,134
New Construction Expenditures*	Sep '83n	$ 272.7	$ 274.8r	$ 230.7
Total Business Inventories †	Aug '83	$ 512.1	$ 505.8	$ 521.3
Total Business Sales †	Aug '83	$ 373.6	$ 372.4	$ 343.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

the same time, the ratio of consumer installment debt outstanding to disposable income remains at the lowest level since 1976, despite a record three-month surge in outstanding installment debt during the May-August period, indicating that the existing debt burden is manageable. In other words, consumers need less of their income to repay their debts than previously, and, thus, can spend more with the aid of new credit.

. . . Bringing Retailers Holiday Cheer

Already benefiting from the more expansive posture of consumers, retailers are hoping that this season will mark the return of traditional Holiday sales patterns. With rising sales, merchants will no longer have to offer as many discounts to lure customers into their stores. And, unlike past years of lackluster Christmas sales when retailers got caught with large volumes of unsold inventories as demand did not meet expectations, this time consumers may face shortages of various products, if retailers keep stocks lean.

Besides cheering up the nation's merchants, the strong Holiday shopping season will obviously help the economic recovery. Faced with empty shelves on the day after Christmas, retailers no doubt will be more confident in ordering goods for winter and spring sales. In turn, this will lead to another wave of higher demand for workers, materials and productive machinery.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/19/83)	87,936	– 921	–59,902
New York City (10/19/83)	18,781	– 401	–19,448
Commercial Paper (10/19/83)	178,194	+ 484	+ 6,333*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/19/83)	215,449	– 458	– 3,018
New York City (10/19/83)	57,852	– 322	– 4,154

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/19/83)	515,351	– 1,043	+ 9,894
New York City (10/19/83)	117,803	– 771	– 3,908

Financial Markets

	Friday 11/4/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.10%	+ .15	+ 1.05
180-Day Bills†	9.50	– .03	+ .75
Longest Bills†	9.95	+ .17	+ .85
Recent Issues:			
$10^{1}/_{2}$s 10/31/85	10.70	+ .10	
$11^{1}/_{8}$s 9/30/87	11.25	+ .08	
$11^{7}/_{8}$s 8/15/93	11.85	+ .15	
12s 8/15/13	11.90	+ .15	
Municipals:			
Bond Buyer–20 Bond Index* (11/3/83)	9.79%	– .02	– .17
Blue List Total ($ Million)	$1,431	– $ 31	+ $ 310
30-Day Visible Supply ($ Million)	$2,225	– $255	– $4,091
Total	$3,656	– $286	– $3,781
Corporates:			
Moody's Aa Composite (11/3/83)	12.68%	+ .13	+ .25
30-Day Visible Supply ($ Million)	$1,425	– $325	+ $ 430
Stocks:			
Dow-Jones Averages:			
Industrials	1,218.29	– 5.19	+ 166.51
Transportation	586.60	+ 9.99	+ 134.41
Utilities	138.58	– .68	+ 16.03
65 Stocks	493.93	+ .98	+ 81.26
Standard and Poor's 500 Stocks	162.44	– .93	+ 20.28
N.Y.S.E. Composite Index	93.77	– .51	+ 11.94
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,350	+ 1,574	– 29,042

* 46% Taxable equivalent 18.13%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/4/83	Week Ago
Overnight	9.38%	9.38%
1 month	9.56	9.44
3 month	9.81	9.56
6 month	9.94	9.69
1 year	10.25	10.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.50%
Long Term (7 to 15 yrs.)	11.65	11.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/4/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01847	54.13
Canada	.8102	1.2343
Denmark	.1045	9.5715
France	.1234	8.1025
Germany	.3755	2.6630
Italy	.0006188	1616.00
Japan	.004246	235.50
Mexico	.006289	159.00
Netherlands	.3349	2.9858
Switzerland	.4623	2.1633
U.K.	1.4860	.6729

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 14, 1983

VOLUME XX, NUMBER 41

Demographic Trends . . .

At this time of the year, many businessmen start to plan for the future, focusing mostly on the year ahead. For this planning horizon, the economic forces are already at work, determined to a large extent by current monetary and fiscal policies, an improved employment picture, a lower inflation rate, rising industrial production and the stable oil situation, among others. However, the longer-term scenario will be shaped not only by economic and political forces but also by changing demographics. And while the longer-term economic and political environment is not yet clear, a large part of the future demographic structure of the American population has already been formed.

The average American is getting older, more productive and more affluent primarily as a result of the maturation of the postwar "baby-boom babies." In the next two decades, an increasingly larger segment of the population will be in its peak earning years (35-54 years old), presaging prosperous days ahead. More spending will probably be directed toward discretionary items than before. Marriage and having children are becoming more popular—albeit at a later age than previous generations. The number of preschool children is projected to grow by nearly 20 percent in the 1980s.

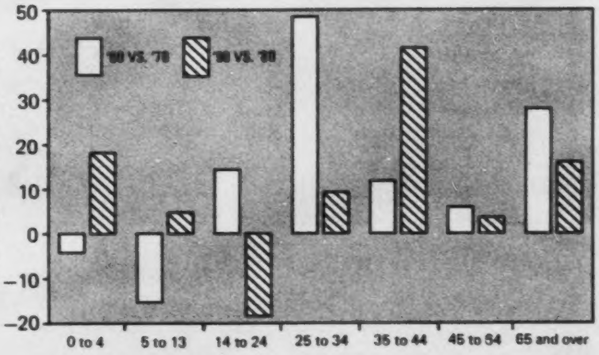
At the same time, teenagers will be a disappearing breed. After growing by 39 percent in the 1960s and only three percent in the 1970s, the number of teenagers in the 1980s will decline by nearly five million. Thus, the need to train large numbers of unskilled workers that plagued industry in the 1970s will soon be greatly reduced. There will be fewer entrants into the labor force (20-24 years old), putting downward pressure on the unemployment rate.

Currently, the country's most dominant and influential age group is the baby boom generation concentrated in the 25-34 year old bracket (see chart). Its share of the total population rose to nearly 17 percent in 1983, compared with only 12.3 percent at the beginning of the last decade. Although its expansion will slow significantly in the latter half of the eighties, between 1983 and 1985 this group will add another two million people to its ranks.

. . . Augur Well . . .

This is expected to have a profound impact on a variety of industries, most importantly automobiles, housing and housing-related durables, because this age group represents the prime purchasers of these items. The most recent survey by the U.S. League of Savings Associations shows that households headed by someone between the ages of 25 and 34 bought almost 45 percent of all single-family homes sold. Thus, if mortgage rates continue to decline, the housing industry seems poised for a healthy boost. Moreover, such related industries as home furnishings, household appliances and, therefore, downstream industries including textiles, chemicals, construction and durable manufacturing will greatly benefit.

PERCENT CHANGE IN POPULATION BY AGE BRACKETS
(ACTUAL AND PROJECTED)



Source: Bureau of the Census

The demand for housing has been intensified by the uptick in both the birth and the fertility rates. After a protracted 20-year decline, the fertility rate (the number of babies born per 1,000 women 15 to 44 years old) bottomed out in 1976, and after several false starts has begun to inch up again. Many women who had postponed childbearing are now having babies. More young women in their thirties are having second thoughts about previous decisions not to have children, while others are opting for a family in addition to a career.

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. . . For Future Economic Progress

Last year, 3.7 million babies were born—the highest yearly total in more than a decade. And with marriage becoming more popular and divorce on the decline—the number of divorces fell in 1982, the first annual drop in 20 years and the trend continued into this year—the birth rate may rise even higher. The Census Bureau projects that the number of women of childbearing age will increase by more than one percent per year until 1985, which is expected to result in a continued rise in the number of annual births.

The rise in the number of babies born each year has already boosted sales of maternity clothes, baby food, drugs, infant clothing, furniture and car seats. For example, sales of baby products which include disposable wipes, baths, oils and creams have been posting impressive gains, increasing by 60 percent during the four years ending in 1982. Meanwhile, overall retail sales increased at half that rate. Unit sales of disposable diapers grew by at least seven percent per year during this period, despite rising prices. What is more, with the recent increased emphasis on early childhood development, educational toys sold very well.

Importantly, over four out of every ten new babies are firstborns, boosting sales of baby-oriented products even higher. In contrast, 20 years ago only one quarter of new babies were first children. Parents, grandparents and relatives usually spend more on firstborns than they do on subsequent

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/2/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	155.328	– 2.730	+14.105
Loans to Depository Inst.	.445	– .123	– .013
Float	1.149	– .038	– .709
Total Reserve Bank Credit	166.090	– 2.943	+12.460
Treasury Deposits with			
Federal Reserve Banks	3.923	– 1.906	+ 1.269
Currency Outside Banks	145.240	– .696	+12.780
Member Bank Reserves:			
Required	37.798	– .364	– 2.903
Excess (Deficiency)	.292	– .148	– .250
Total Reserves Held	38.090	– .512	– 3.153
Net Borrowed Reserves	.020	+ .041	+ .373
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	112.132	+ 2.024	+10.738

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (10/26/83)	518.3	+ 2.1‡	+ 10.6‡
M2 (September '83)	2,145.1	+ 5.8	+ 11.9
M3 (September '83)	2,543.4	+ 7.1	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/10/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.70%	8.90%	9.00%
* Federal Agencies	9.05	9.30	9.95
* Project Notes–Taxfree (46% Taxable Equivalent)	9.44	9.81	10.65
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.37	9.55	10.13

‡Finance Company Paper–Prime	
5- 14 days	9.15%
15- 29 days	9.15
30- 59 days	9.15
60- 89 days	9.15
90-179 days	9.00
180-239 days	8.88
240-270 days	8.88

‡* Bankers' Acceptances	
Dec.	9.25%
Jan.	9.25
Feb.	9.25
Mar.	9.30
Apr.	9.30
May	9.25

‡Industrial Paper–Prime	
30- 89 days	9.15%
90-120 days	9.15

†Federal Funds	
Effective Rate	9.35%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
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Change in Producer Prices*	Oct '83n	3.6%	2.4%	4.8%
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Unemployment as % of Civilian Labor Force†	Oct '83	8.8%	9.3%	10.5%
Personal Income*	Sep '83	$ 2,781	$ 2,756	$ 2,597
Leading Indicators Composite Index (1967=100)†	Sep '83	160.2	158.7	137.5
Industrial Production Index (1967=100) †	Sep '83	153.7	151.4	137.3
Net Change in Consumer Installment Credit †	Sep '83n	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Sep '83	–$ 5.81	–$ 7.19	–$ 4.20
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Sep '83	1,652	1,909	1,134
New Construction Expenditures*	Sep '83	$ 272.7	$ 274.8	$ 230.7
Total Business Inventories †	Aug '83	$ 512.1	$ 505.8	$ 521.3
Total Business Sales †	Aug '83	$ 373.6	$ 372.4	$ 343.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

children who frequently inherit hand-me-downs from older siblings.

But even as more women have decided to become mothers, many are not giving up their careers and are quickly returning to the labor force. Today, about 46 percent of mothers of infants are in the labor force as are two thirds of mothers of children over six years old. If the trend in the number of working mothers continues, the need for children's services and nursery schools will increase dramatically. The Census Bureau believes that the number of children under six will increase by 13 percent between 1983 and 1990.

Over the past 30 years, the number of women in the labor force has nearly tripled. In 1950, only one third of all women were employed outside the home, while today more than one half of all women are either working or actively seeking a job, raising the number of families with employed wives more than threefold in the past 30 years. Many consumer markets are growing along with the rise in the ranks of working women. Such time-saving items as microwave ovens, convenience foods and higher-priced conservative apparel sold well even during the last recession. As an example, unit sales of microwave ovens jumped by a sizable 60 percent during the past three years, despite depressed sales of other household appliances. People's appetites for frozen foods have revived; last year's purchases outpaced overall food sales almost two to one.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/26/83)	87,962	+ 31	–58,686
New York City (10/26/83)	18,499	– 282	–20,269
Commercial Paper (10/26/83)	178,243	+ 49	+ 8,168*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/26/83)	215,034	– 415	– 2,508
New York City (10/26/83)	57,188	– 664	– 4,482

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/26/83)	516,667	+ 1,316	+13,917
New York City (10/26/83)	118,189	+ 386	– 1,582

Financial Markets

	Thursday 11/10/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.05%	– .05	+ .75
180-Day Bills†	9.48	– .02	+ .83
Longest Bills†	9.82	– .13	+ 1.12
Recent Issues:			
10½s 10/31/85	10.55	– .15	
11⅛s 9/30/87	11.14	– .11	
11¾s 11/15/93 (When Issued)	11.68	NA	
12s 8/15/13	11.75	– .15	
Municipals:			
Bond Buyer–20 Bond Index*	9.75%	– .04	– .17
Blue List Total ($ Million) (11/4/83)	$1,431	– $ 31	+ $ 310
30-Day Visible Supply ($ Million) (11/4/83)	$2,225	– $255	– $4,091
Total	$3,656	– $286	– $3,781
Corporates:			
Moody's Aa Composite (11/9/83)	12.66%	– .02	+ .16
30-Day Visible Supply ($ Million)	$1,750	+ $325	+ $ 868
Stocks:			
Dow-Jones Averages:			
Industrials	1,235.87	+ 17.58	+ 195.95
Transportation	590.43	+ 3.83	+ 145.59
Utilities	136.71	– 1.87	+ 17.29
65 Stocks	498.01	+ 4.08	+ 91.39
Standard and Poor's 500 Stocks	164.41	+ 1.97	+ 24.88
N.Y.S.E. Composite Index	94.75	+ .98	+ 14.06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	76,682	– 6,668	– 18,078

* 46% Taxable equivalent 18.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 11/10/83	Week Ago
Overnight	9.38%	9.38%
1 month	9.50	9.56
3 month	9.75	9.81
6 month	9.88	9.94
1 year	10.19	10.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.55%
Long Term (7 to 15 yrs.)	11.70	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/10/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01847	54.13
Canada	.8098	1.2348
Denmark	.1043	9.5900
France	.1234	8.1035
Germany	.3757	2.6617
Italy	.0006194	1614.50
Japan	.004258	234.85
Mexico	.006309	158.50
Netherlands	.3353	2.9823
Switzerland	.4627	2.1612
U.K.	1.4855	.6732

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 21, 1983

VOLUME XX, NUMBER 42

Energy Conservation . . .

One of the side effects of this year's pickup in the pace of business activity has been a rise in energy consumption. Demand for petroleum rose for the fifth month in a row in October, compared with year-ago levels, following five years of practically uninterrupted declines. During the third quarter, motorists began taking more and longer trips, which resulted in a 2.3 percent increase in gasoline use compared with last year. Demand for jet fuel climbed almost five percent during this period, while consumption of distillates—which include home heating oil and diesel fuel—rose 5.3 percent. Stepped-up output by the nation's factories increased industrial demand for electricity. Usage jumped by a seasonally adjusted 22.4 percent annual rate in the third quarter—the highest quarterly rise on record.

It is clear, however, that despite increased consumption, price-induced conservation efforts adopted over the past decade remain an important part of the energy picture and improved efficiency still has a high priority in American industry. While the economy expanded by 4.6 percent in the third quarter, year-over-year, petroleum consumption increased only 1.3 percent during this time. According to the Department of Energy, in the first half of 1982, 49,000 BTUs of energy were needed to produce one dollar of "real" GNP, whereas in the first half of this year 46,150 BTUs were required—nearly a six percent improvement. By contrast, in 1973, it took 59,500 BTUs to produce one GNP dollar.

Although consumption of motor gasoline perked up this year, American motorists and the automobile industry continue to conserve. For despite a 25 percent rise in the number of cars in use since 1973 and only a 6.6 percent drop in the average number of miles traveled per car, consumption of gasoline in the U.S. was actually 3.6 percent lower during the first nine months of this year than it was for the same period in 1973.

Since 1973, there has been a substantial improvement in fuel efficiency of the typical automobile on the road. As the table shows, the average number of miles traveled per gallon of fuel consumed by all cars is estimated to have increased by more than 25 percent over the past ten years. Even more remarkable is the fact that these results encompassed a period of extremely sluggish new car sales—between 1979 and early 1983—which slowed the shift from older vehicles to newer, more fuel-efficient models. Therefore, the revival in automobile sales and the consequent increase in the fuel efficiency of the nation's fleet will keep a lid on gasoline consumption even as motorists drive more and buyers show renewed interest in larger cars. This is particularly important to the overall energy situation, since gasoline consumption is the single largest component of U.S. petroleum demand—representing close to 45 percent.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,026		581		15.5
1982	9,047		570		15.9
1983(e)	9,336		568		16.4

Sources: Federal Highway Administration; MHT estimates

. . . Is Here To Stay . . .

To be sure, the stepped-up pace of U.S. business activity is likely to push up energy demand further. For example, as people's economic situations and financial prospects improve, so do their plans for vacations. The Conference Board's survey of vacation plans showed that last June 32.5 percent of households intended to take driving vacations in the following six months—a one percentage point increase over the previous year. Since then, the year-over-year comparisons widened to about three percentage points. This desire to drive more was also encouraged by the recent decline in gasoline prices and favorable weather conditions. Since mid-July, the price at the pump has dropped by more than four cents per gallon.

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While the mild weather has been conducive to driving, it has put a damper on the home heating oil market. Sales are depressed and retail prices in some areas are as much as 14 cents per gallon below year-ago levels. So far during this heating season, the nation's weather, as measured by population-weighted heating degree days, has been not only eight percent warmer than last year, but also ten percent warmer than normal.

However, even if temperatures drop below normal this winter, a return to the energy profligacy of the pre-1973 years is hardly likely. Over the years, homeowners have made their homes more energy-efficient, installing extra insulation, weather stripping and storm windows, while many switched to natural gas and such other less conventional forms of heating as wood stoves and solar energy. They have lowered their thermostats and cooler temperatures indoors seem to be well accepted.

While the use of distillate oil as a home heating fuel is not very predictable—since it is determined to a large extent by the weather—its use as a diesel fuel by the transportation sector is more easily anticipated. Responding to changes in the economy, railroad and truck traffic started to recover in late spring and posted significant year-to-year advances in the third quarter. As a result, in the third quarter, increased demand for diesel fuel more than offset the slide in consumption of home heating fuel, causing a 5.3 percent rise in overall distillate demand.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/9/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	153.528	– 1.800	+12.370
Loans to Depository Inst.	1.043	+ .598	+ .321
Float	2.022	+ .788	– .647
Total Reserve Bank Credit	165.704	– .471	+11.231
Treasury Deposits with Federal Reserve Banks	2.907	– 1.016	– .349
Currency Outside Banks	146.793	+ 1.553	+13.014
Member Bank Reserves:			
Required	36.850	– .948	– 3.117
Excess (Deficiency)	.535	+ .158	+ .193
Total Reserves Held	37.385	– .790	– 2.924
Net Borrowed Reserves	.382	+ .447	+ .242
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.984	+ .852	+10.564
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1	517.8	+ 0.2‡	+ 9.8‡
M2 (October '83)	2,161.0	+ 6.5	+ 12.0
M3 (October '83)	2,560.9	+ 8.1	+ 8.9
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/18/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	9.00%
* Federal Agencies	9.00	9.30	9.80
* Project Notes—Taxfree (46% Taxable Equivalent)	9.35	9.81	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.45	9.61	10.10

‡Finance Company Paper—Prime	
5- 14 days	9.05%
15- 29 days	9.10
30- 59 days	9.13
60- 89 days	9.15
90-179 days	9.10
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Dec.	9.20%
Jan.	9.20
Feb.	9.20
Mar.	9.20
Apr.	9.20
May	9.20

‡Industrial Paper—Prime	
30- 89 days	9.15%
90-120 days	9.15

†Federal Funds Effective Rate 9.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.9	9.7	– 1.0
Change in Consumer Prices (new series)*	Sep '83	6.0%	4.8%	1.2%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Oct '83	101,928	101,945	99,176
Unemployment as % of Civilian Labor Force†	Oct '83	8.8%	9.3%	10.5%
Personal Income*	Sep '83	$ 2,781	$ 2,756	$ 2,597
Leading Indicators Composite Index (1967=100)†	Sep '83	160.2	158.7	137.5
Industrial Production Index (1967=100) †	Oct '83n	154.8	153.6r	135.7
Net Change in Consumer Installment Credit †	Sep '83	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Sep '83	–$ 5.81	–$ 7.19	–$ 4.20
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Oct '83n	1,608	1,672r	1,142
New Construction Expenditures*	Sep '83	$ 272.7	$ 274.8	$ 230.7
Total Business Inventories †	Sep '83n	$ 513.8	$ 510.4r	$ 521.0
Total Business Sales †	Sep '83n	$ 380.0	$ 374.4r	$ 342.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . And Prices Show It

This upturn in domestic demand for petroleum products is not expected to start another upward spiral in oil prices in the near future. Barring an unexpected interruption, supplies are expected to remain plentiful, while world demand stays depressed. Most of the major oil producers are anxious to step up production to increase export revenues. More than one-half of the 13 OPEC members are already believed to be exceeding their quota, raising total OPEC output to an estimated 18.6 to 18.7 million barrels per day (mbd)—more than one mbd higher than agreed upon.

The rise in energy consumption seems to be limited to the United States. Petroleum demand by the rest of the world remains depressed as economic recoveries in the major industrialized countries remain sluggish. What is more, most of the other countries did not benefit as much from the drop in the OPEC average official price as did the United States. This is because the price of oil is denominated in dollars and many of the world currencies have been depreciating vis-a-vis the dollar. For example, since early February, the price of crude oil has declined by 15 percent in dollar terms. When translated into French francs, this price cut has been completely erased and in Italy, the depreciation of the lira reduced the price break to only two percent.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/2/83)	88,416	+ 454	–56,646
New York City (11/2/83)	18,528	+ 29	–19,488
Commercial Paper (11/2/83)	179,072	+ 827	+ 8,703*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/2/83)	216,534	+ 1,528	– 1,035
New York City (11/2/83)	57,959	+ 771	– 3,432

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/2/83)	521,029	+ 4,289	+14,478
New York City (11/2/83)	120,992	+ 2,803	– 759

Financial Markets

	Friday 11/18/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.18%	+ .13	+ .88
180-Day Bills†	9.60	+ .12	+ .90
Longest Bills†	9.92	+ .10	+ .97
Recent Issues:			
$10\frac{1}{2}$s 10/31/85	10.65	+ .10	
$11\frac{1}{8}$s 9/30/87	11.20	+ .06	
$11\frac{3}{4}$s 11/15/93	11.65	– .03	
12s 8/15/13	11.80	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (11/17/83)	9.70%	– .05	– .50
Blue List Total ($ Million)	$1,481	+$ 145	+ $ 91
30-Day Visible Supply ($ Million)	$3,313	–$ 172	– $2,443
Total	$4,794	–$ 27	– $2,352
Corporates:			
Moody's Aa Composite (11/17/83)	12.61%	– .05	+ .12
30-Day Visible Supply ($ Million)	$ 400	–$1,350	– $ 970
Stocks:			
Dow-Jones Averages:			
Industrials	1,250.91	+ .71	+ 229.66
Transportation	606.04	+ 10.47	+ 172.89
Utilities	137.33	+ .24	+ 17.96
65 Stocks	505.68	+ 2.90	+ 106.44
Standard and Poor's 500 Stocks	165.09	– 1.20	+ 28.07
N.Y.S.E. Composite Index	95.46	+ .71	+ 16.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,592	+ 6,910	+ 612

* 46% Taxable equivalent 17.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/18/83	Week Ago
Overnight	9.25%	9.38%
1 month	9.50	9.50
3 month	9.88	9.75
6 month	10.00	9.88
1 year	10.31	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.60%
Long Term (7 to 15 yrs.)	11.75	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/18/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01825	54.79
Canada	.8081	1.2374
Denmark	.1029	9.7145
France	.1219	8.2035
Germany	.3709	2.6965
Italy	.0006124	1633.00
Japan	.004241	235.80
Mexico	.006173	162.00
Netherlands	.3312	3.0195
Switzerland	.4588	2.1798
U.K.	1.4787	.6763

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 28, 1983

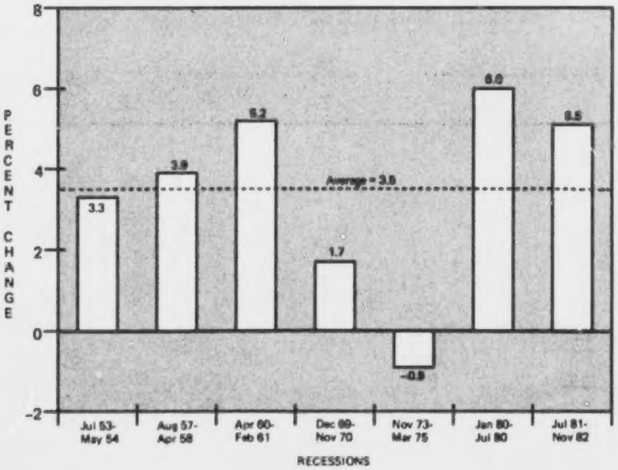
VOLUME XX, NUMBER 43

Capital Spending . . .

A welcome development accompanying the current upturn in economic activity is the revival of capital spending. The continued rise in final demand, the rebuilding of inventories, stepped-up output by the nation's factories and the consequent rise in capacity utilization seem to have boosted businessmen's confidence in the strength of the recovery. As a result, spending on plant and equipment in the first nine months of this year posted one of the strongest post-recession upturns in the past 30 years (Chart I).

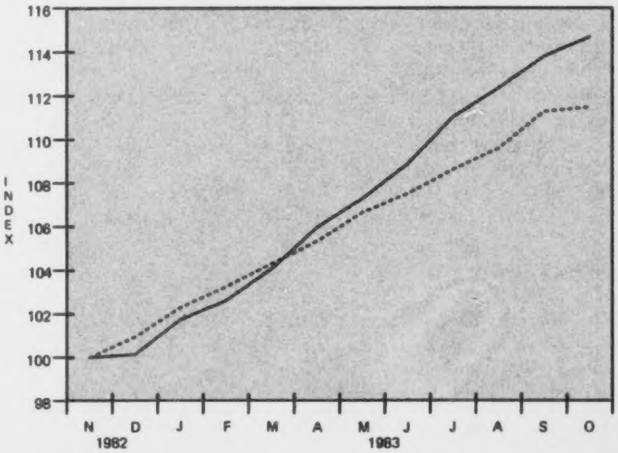
But although capacity utilization has grown at a faster pace than it normally does after a recession (Chart II), it seems that at this point in the recovery many businessmen are not providing much for expansion of total capacity. They are not building new factories, office buildings, shopping centers, warehouses, among others, but rather buying more modern equipment that will cut costs and improve efficiency of their existing—even underutilized—production lines.

CHART I
REAL NONRESIDENTIAL FIXED INVESTMENT
FIRST THREE QUARTERS OF RECOVERY



With the dollar overvalued vis-a-vis other major currencies, imports have become cheaper, making inroads into domestic markets. Improved efficiency and higher productivity are the only ways domestic manufacturers can become more competitive. Thus, all of the $9.4 billion annual rate rise in real nonresidential-fixed investment since the first quarter of 1983 came from equipment purchases, with real spending on business structures actually dropping by nearly $1 billion during this period. However, spending on nonresidential structures rose in the third quarter compared with the second, following seven quarters of declines.

CHART II
GROWTH IN CAPACITY UTILIZATION
CURRENT RECOVERY (LINE)
AVERAGE OF 7 PREVIOUS RECOVERIES (DOT)



. . . Is On The Rise . . .

The stepped-up rate of investment was concentrated mainly in those durable goods where spending took the biggest plunge during the recession. This advance was paced by sharply increased purchases of motor vehicles. Business investment in cars, trucks and buses has risen by more than 25 percent since the end of last year—a development contributing to the sharp turnaround in the motor vehicle industry. Production of trucks, for example, is up 55 percent over a year ago. And, despite the fact that Detroit is now building 60 percent more cars than at this time last year, car dealers are having trouble keeping up with demand and are reporting shortages of standard and luxury models. Inventories fell to a mere 48 days' supply at the beginning of November.

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. . . Concentrating On . . .

What is more, investment in office machinery continues its eight-year expansion, rising by more than 20 percent since the end of last year. Responding to the improvement in construction activity, spending on construction equipment has risen by 29 percent in the six months ending in September to $1.2 billion—although that is still nearly 80 percent less than the 1978 peak. But spending is not taking off in all areas. The severe drop in farm incomes since 1979 has hurt spending for such agricultural machinery as tractors and combines. The financial problems of the airline industry—stemming partially from ongoing price wars—have depressed demand for new aircraft.

. . . Cost-Cutting Equipment

An important contributor to the surge in capital investment has been improved profitability. Even as sales accelerated, management was able to keep a firm grip on costs—primarily because of modest wage gains, rising productivity and the consequent decline in unit labor costs. As a result, after-tax profits jumped by 31 percent during the six months ending in September—posting the biggest six-month advance since 1950.

What is more, when the generous depreciation schedules from the Administration's Economic Recovery Act—which went into effect in 1981—are included, many companies experienced an even greater improvement in their cash flow. In fact,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/16/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	156.639	+ 3.111	+12.759
Loans to Depository Inst.	1.024	− .019	+ .282
Float	2.019	− .069	− .688
Total Reserve Bank Credit	168.232	+ 2.462	+11.468
Treasury Deposits with Federal Reserve Banks	3.207	+ .300	+ .099
Currency Outside Banks	148.312	+ 1.519	+13.323
Member Bank Reserves:			
Required	37.397	+ .547	− 3.738
Excess (Deficiency)	.631	+ .030	+ .233
Total Reserves Held	38.028	+ .577	− 3.505
Net Borrowed Reserves	.277	− .039	+ .169
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.117	− 1.867	+ 7.745

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (11/9/83)	517.8	+ 0.2‡	+ 9.8‡
M2 (October '83)	2,161.0	+ 6.5	+ 12.0
M3 (October '83)	2,560.9	+ 8.1	+ 8.9
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/23/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	9.00%
* Federal Agencies	9.10	9.50	9.75
* Project Notes—Taxfree (46% Taxable Equivalent)	9.54	9.91	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.35	9.45	10.00

‡Finance Company Paper—Prime	
5- 14 days	8.75%
15- 29 days	8.88
30- 59 days	9.05
60- 89 days	9.10
90-179 days	9.10
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Dec.	9.15%
Jan.	9.15
Feb.	9.15
Mar.	9.15
Apr.	9.15
May	9.10

‡Industrial Paper—Prime	
30- 89 days	9.10%
90-120 days	9.10

†Federal Funds Effective Rate 9.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,360 r	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554 r	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.7 r	9.7	− 1.0
Change in Consumer Prices (new series)*	Oct '83n	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Oct '83	101,928	101,945	99,176
Unemployment as % of Civilian Labor Force †	Oct '83	8.8%	9.3%	10.5%
Personal Income*	Oct '83n	$ 2,819	$ 2,786r	$ 2,618
Leading Indicators Composite Index (1967=100) †	Sep '83	160.2	158.7	137.5
Industrial Production Index (1967=100) †	Oct '83	154.8	153.6	135.7
Net Change in Consumer Installment Credit †	Sep '83	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Sep '83	−$ 5.81	−$ 7.19	−$ 4.20
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Oct '83	1,608	1,672	1,142
New Construction Expenditures*	Sep '83	$ 272.7	$ 274.8	$ 230.7
Total Business Inventories †	Sep '83	$ 513.8	$ 510.4	$ 521.0
Total Business Sales †	Sep '83	$ 380.0	$ 374.4	$ 342.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

corporate cash flow relative to GNP is now some seven percent higher than the average of the previous six recoveries. This has enabled corporations to pay for new projects with internally-generated funds, avoiding the still high cost of debt.

The outlook for investment spending thus is encouraging—at least for the near term. Order books for durables and nondurables have been filling up quickly. October's orders for durables were three percent higher than in September and backlogs are expanding. The National Machine Tool Builders' Association says that for the month of September, net new orders showed an 80 percent gain from the same month a year ago. Meanwhile, the National Association of Purchasing Management reports that suppliers are taking longer to fill orders—meaning that plants are increasingly "busy." In fact, the number of companies reporting slower deliveries in October was the highest since April, 1979.

This rosy view was confirmed by a survey recently taken by McGraw-Hill. It shows that next year, business purchases of new plant and equipment are slated to rise by 9.4 percent, before adjusting for inflation, to $333.4 billion. But actual spending levels may be much higher, the report suggests. As in the case with many surveys, it tends to undershoot when the economy is rising swiftly, because businessmen tend to be more pessimistic after a recession and take their time before convinced of the recovery's sustainability.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/9/83)	88,317	– 102	–55,963
New York City (11/9/83)	18,143	– 385	–20,552
Commercial Paper (11/9/83)	180,943	+ 1,849	+11,641*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/9/83)	218,664	+ 1,846	+ 1,226
New York City (11/9/83)	58,687	+ 728	– 2,625

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/9/83)	522,278	+ 705	+20,032
New York City (11/9/83)	119,800	– 1,192	+ 620

Financial Markets

	Wednesday 11/23/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.15%	+ .02	+ 1.00
180-Day Bills†	9.50	–0–	+ 1.00
Longest Bills†	9.85	–0–	+ .90
Recent Issues:			
$10\frac{1}{2}$s 10/31/85	10.60	–0–	
$11\frac{1}{8}$s 9/30/87	11.10	– .05	
$11\frac{3}{4}$s 11/15/93	11.55	– .13	
12s 8/15/13	11.64	– .11	
Municipals:			
Bond Buyer–20 Bond Index* (11/17/83)	9.70%	– .05	– .50
Blue List Total ($ Million) (11/18/83)	$1,481	+$ 145	+ $ 91
30-Day Visible Supply ($ Million) (11/18/83)	$3,313	–$ 172	– $2,443
Total	$4,794	–$ 27	– $2,352
Corporates:			
Moody's Aa Composite (11/22/83)	12.61%	+ .02	+ .07
30-Day Visible Supply ($ Million)	$ 700	–$ 575	– $ 660
Stocks:			
Dow-Jones Averages:			
Industrials	1,275.71	+ 24.39	+ 275.71
Transportation	610.05	+ 11.77	+ 189.04
Utilities	137.72	– .77	+ 21.12
65 Stocks	512.57	+ 8.18	+ 122.62
Standard and Poor's 500 Stocks	166.96	+ .88	+ 33.08
N.Y.S.E. Composite Index	96.40	+ .51	+ 18.80
N.Y.S.E. Avg. Daily Vol. for Week (000's)	98,530	+16,310	+ 25,864

* 46% Taxable equivalent 17.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Wednesday 11/23/83	Week Ago
Overnight	9.19%	9.38%
1 month	9.31	9.50
3 month	9.69	9.75
6 month	9.88	9.94
1 year	10.19	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.60%
Long Term (7 to 15 yrs.)	11.65	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/23/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01825	54.78
Canada	.8086	1.2367
Denmark	.1029	9.7195
France	.1220	8.1975
Germany	.3717	2.6907
Italy	.0006139	1629.00
Japan	.004269	234.25
Mexico	.006116	163.50
Netherlands	.3310	3.0210
Switzerland	.4607	2.1705
U.K.	1.4705	.6800

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 5, 1983 VOLUME XX, NUMBER 44

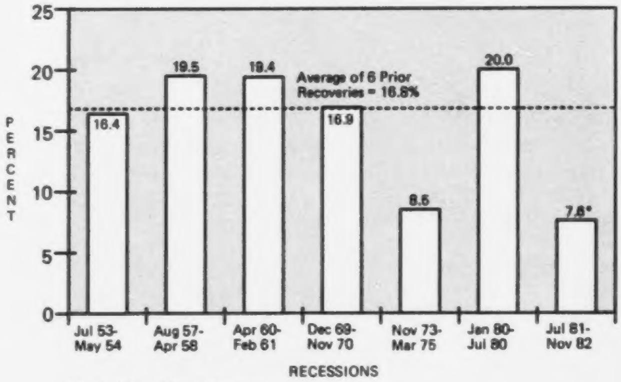
Corporate Illiquidity In Remission . . .

One of the more positive developments stemming from the current business recovery is the strong snapback in corporate profits. With sales gathering momentum, operating costs slashed, productivity improving and idle capacity diminished, businessmen now find themselves enjoying one of the largest earnings surges of the postwar era. And with earnings bolstered, corporate cash flow has begun to outpace business outlays for inventories, plant and equipment. This has dampened corporate borrowing needs, eased credit market pressures and enabled corporate America to begin the lengthy process of repairing badly worn business balance sheets. For after deteriorating almost nonstop since the mid-1970s, some progress has been made in restoring corporate financial health—holding out the promise that a good chunk of next year's anticipated upturn in capital spending may be financed internally, and the long-feared clash of Federal and private borrowings deferred.

This would not have been possible in the absence of a healthy rebound in corporate profits. Before-tax corporate profits, for example, rose by a huge $58 billion, or almost 34 percent, during the six months ending September 30, to a seasonally adjusted $227 billion annual rate. While still running somewhat below early 1980 levels, this two-quarter surge has not only reversed just about all of the drop in profits which occurred between the third quarter of 1981 (when the recession began) and end-1982, it was also the largest six-month increase in earnings since early 1950—when before-tax earnings rose 46 percent during that year's middle six months. During the earlier period, however, rising inventory profits accounted for almost one-half of the overall profits gain, compared with less than one-third over the two most recent quarters. After-tax earnings have soared, too. They rose $34 billion, or 31 percent, during the April-September, 1983 period.

With earnings spiking higher, and depreciation allowances enhanced as a result of the Economic Recovery Tax Act of 1981, corporate cash flow has rebounded vigorously. During the first three quarters of this year, cash flow was running at an annual rate of $272 billion, 13 percent higher than a year ago. At this level, not only was cash flow equivalent to just about 8½ percent of gross national product, well above the 7½ percent of GNP average which has prevailed during the first year of recovery from the preceding six postwar recessions, but it exceeded business capital spending for the first time since 1975—by a rate of almost $16 billion, or six percent. This was the widest margin in the postwar era.

U.S. NONFINANCIAL CORPORATE CREDIT DEMANDS
AS A % OF TOTAL FUNDS RAISED IN CREDIT MARKETS
DURING FIRST YEAR OF RECOVERY



*First nine months of recovery.

. . . Blunts The Effects . . .

Prospects for sharply higher corporate earnings set the stage for the second major improvement in business finance in recent months: namely, the strengthening of its capital base. With debt instrument yields declining, and buyers eager to participate in the expected earnings-driven appreciation of share prices, net new stock issues surged. They ran at a $31 billion annual pace over the last three quarters, accounting for a record 41 percent of all external funds raised by corporate America, and dwarfing by far the previous record of 32 percent set in 1975. In recent quarters, in fact, nonfinancial corporations have been adding almost $1 of equity to their balance sheets for each $1.50 of debt—a long overdue development and a significant reversal, considering that net new stock issues were virtually nil over the preceding five years.

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With business flush with funds either generated internally, arising from new equity issues, or bond market offerings, businessmen undertook a third major step toward improving financial health. They have used these funds both to retire some short-term debt, as well as to accumulate financial assets. The protracted rise in bank loans and commercial paper outstanding was reversed in fall 1982. With C & I loans trimmed by about 2½ percent over the last year, and commercial paper down by 20 percent, total short-term business credit outstanding now stands about 6½ percent below its third quarter, 1982 peak. This, in turn, has bolstered such key liquidity indicators as relative maturity and debt-to-equity. Furthermore, corporations have been aggressively building their liquid asset reserves. Over the past nine months, holdings of such liquid assets as bank deposits and Treasury securities have risen by about $30 billion, providing a modest cushion with which to finance a portion of contemplated capital expenditures internally, not to mention pay off more short-term debt if necessary.

. . . Of Washington's Deficit

All of which is not to say that corporate illiquidity has disappeared entirely. Far from it. Corporate balance sheets still carry $3.60 of debt for each $1 of equity (compared with a 2:1 ratio in 1976), and interest expenses related to this debt are still

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/23/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.658	+ 2.019	+13.514
Loans to Depository Inst.	.815	– .209	+ .348
Float	1.233	– .808	– 1.098
Total Reserve Bank Credit	168.763	+ .509	+11.898
Treasury Deposits with Federal Reserve Banks	2.441	– .766	– .430
Currency Outside Banks	149.325	– 1.013	–13.642
Member Bank Reserves:			
Required	37.983	+ .586	– 2.869
Excess (Deficiency)	.408	– .245	+ .084
Total Reserves Held	38.391	+ .341	– 2.785
Net Borrowed Reserves	.280	+ .025	+ .369
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.712	+ 1.595	+ 9.171

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	519.3	+ 0.6‡	+ 9.4‡
M2 (October '83)	2,161.4	+ 6.6	+ 12.0
M3 (October '83)	2,561.1	+ 8.1	+ 8.9
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/2/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.65%	8.75%	9.00%
* Federal Agencies	8.90	9.44	9.83
* Project Notes—Taxfree (46% Taxable Equivalent)	9.63	10.10	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.40	9.60	10.05

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.10%	Jan.	9.20%
15- 29 days	9.10	Feb.	9.20
30- 59 days	9.13	Mar.	9.20
60- 89 days	9.15	Apr.	9.25
90-179 days	9.15	May	9.25
180-239 days	9.10	Jun.	9.20
240-270 days	9.10		

‡ Industrial Paper—Prime			
30- 89 days	9.15%	† Federal Funds	
90-120 days	9.15	Effective Rate	9.50%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,360	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.7	9.7	– 1.0
Change in Consumer Prices (new series)*	Oct '83	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Nov '83n	102,671	101,928	99,136
Unemployment as % of Civilian Labor Force †	Nov '83n	8.4%	8.8%	10.7%
Personal Income*	Oct '83	$ 2,819	$ 2,786	$ 2,618
Leading Indicators Composite Index (1967=100) †	Oct '83n	161.8	160.5r	138.6
Industrial Production Index (1967=100) †	Oct '83	154.8	153.6	135.7
Net Change in Consumer Installment Credit †	Sep '83	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Oct '83n	–$ 8.97	–$ 5.81	–$ 5.26
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Oct '83	1,608	1,672	1,142
New Construction Expenditures*	Oct '83n	$ 269.5	$ 276.4r	$ 234.1
Total Business Inventories †	Sep '83	$ 513.8	$ 510.4	$ 521.0
Total Business Sales †	Sep '83	$ 380.0	$ 374.4	$ 342.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

absorbing more than 20 cents of every $1 of cash flow generated (about the same as in 1976). So, too, despite four straight quarterly declines in the ratio of short-term to total debt, almost one-half of all corporate liabilities are still of short duration. This suggests that any upturn in short-term interest rates could quickly place the corporate sector flat on its back again.

But what the improvement in corporate finances has done is presented the Treasury and, by extension, the economy with a window of opportunity in which the enormous Federal budget deficit could be financed without unduly disrupting either the pattern of interest rates or the Federal Reserve's inflation-fighting monetary policy. With cash flows rising strongly, equity positions bolstered and outstanding short-term debt reduced, corporate America has not only begun to put its finances in order, but has made an important contribution to the sustainability of the recovery. As shown in the chart on page 1, diminished corporate borrowings accounted for a smaller percentage of total credit market borrowings during the first three quarters of this year than during any other first recovery year from the preceding six postwar recessions. By providing some elbow room to the Treasury, this was sufficient to forestall the intense credit market pressures which could have arisen as a result of Washington's ongoing profligacy.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/16/83)	87,417	– 900	–54,640
New York City (11/16/83)	18,015	– 128	–19,520
Commercial Paper (11/16/83)	182,729	+ 1,789	+13,885*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/16/83)	216,742	– 1,922	– 131
New York City (11/16/83)	58,314	– 373	– 3,000

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/16/83)	522,329	+ 243	+19,140
New York City (11/16/83)	120,971	+ 1,172	+ 547

Financial Markets

	Friday 12/2/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.25%	+ .10	+ 1.13
180-Day Bills†	9.70	+ .20	+ .97
Longest Bills†	10.00	+ .15	+ 1.00
Recent Issues:			
$10\frac{1}{2}$s 10/31/85	10.70	+ .10	
$11\frac{1}{8}$s 9/30/87	11.28	+ .18	
$11\frac{3}{4}$s 11/15/93	11.75	+ .20	
12s 8/15/13	11.78	+ .14	
Municipals:			
Bond Buyer–20 Bond Index* (12/1/83)	9.82%	+ .08	– .41
Blue List Total ($ Million)	$1,600	– $ 26	+ $ 76
30-Day Visible Supply ($ Million)	$4,208	– $466	+ $142
Total	$5,808	– $492	+ $218
Corporates:			
Moody's Aa Composite (12/1/83)	12.58%	– .02	+ .10
30-Day Visible Supply ($ Million)	$1,130	+ $580	– $ 70
Stocks:			
Dow-Jones Averages:			
Industrials	1,265.24	– 12.20	+ 233.88
Transportation	605.29	– 5.14	+ 159.92
Utilities	134.87	– 2.65	+ 18.13
65 Stocks	507.59	– 5.33	+ 103.92
Standard and Poor's 500 Stocks	165.44	– 1.74	+ 26.75
N.Y.S.E. Composite Index	95.66	– .89	+ 15.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,080	+ 4,782	+ 17,698

* 46% Taxable equivalent 18.19%.

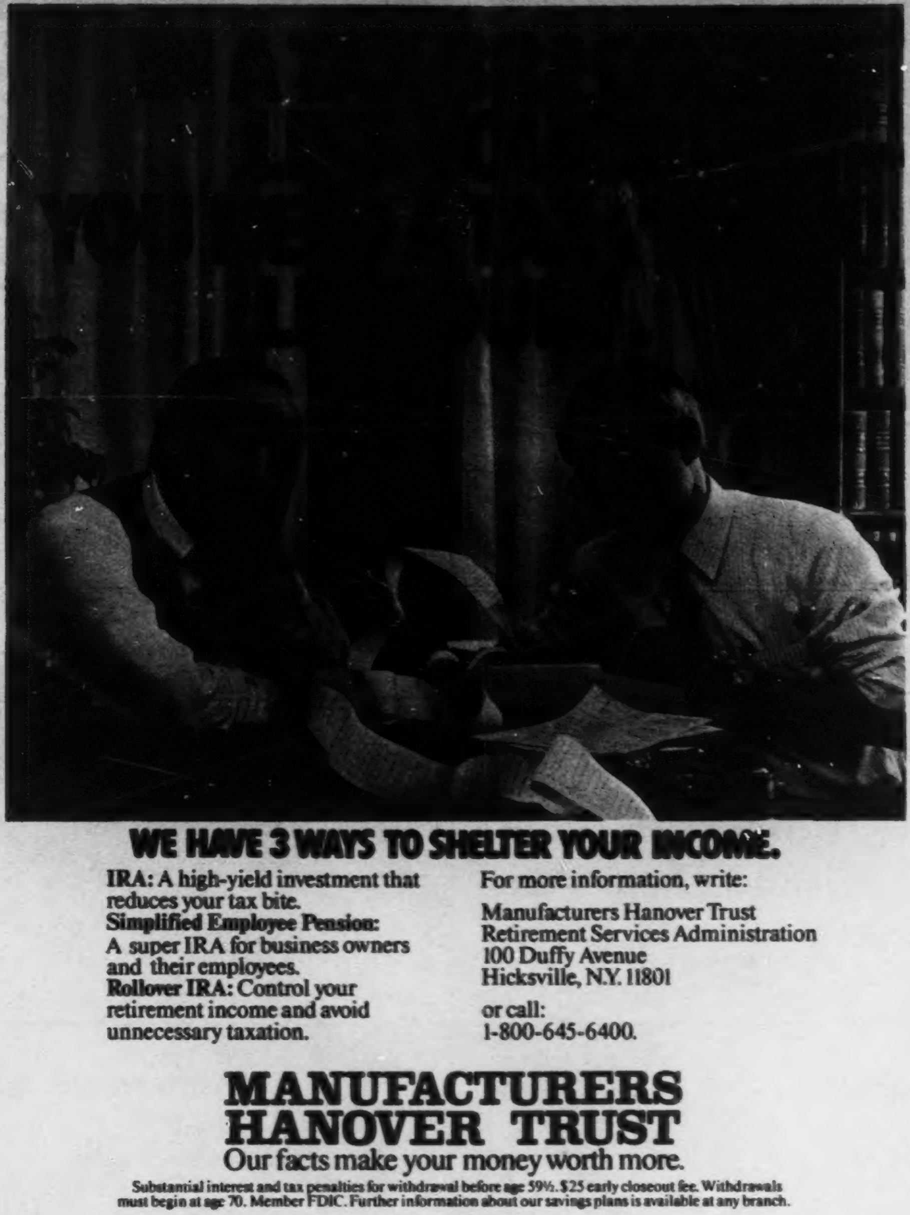
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/2/83	Week Ago
Overnight	9.25%	9.19%
1 month	9.63	9.31
3 month	9.75	9.69
6 month	10.00	9.88
1 year	10.31	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.55%
Long Term (7 to 15 yrs.)	11.65	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/2/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01823	54.85
Canada	.8046	1.2429
Denmark	.1025	9.7560
France	.1217	8.2175
Germany	.3701	2.7020
Italy	.0006111	1636.50
Japan	.004297	232.72
Mexico	.006079	164.50
Netherlands	.3304	3.0267
Switzerland	.4623	2.1633
U.K.	1.4580	.6859



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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 12, 1983 VOLUME XX, NUMBER 45

For Retailers . . .

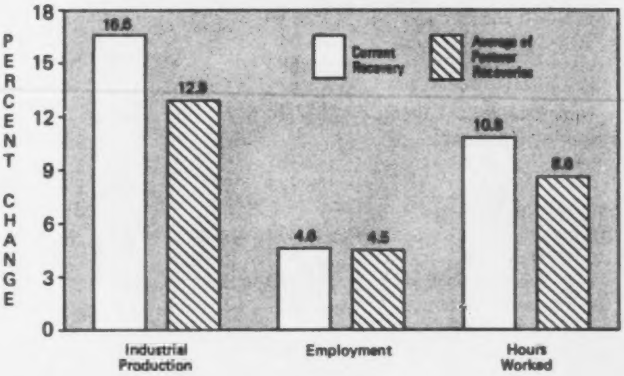
If there were any lingering doubts about the vigor of this Holiday shopping season, last month's substantial rise in employment should easily dispel them. The additional 743,000 people working—and the 0.4 percent drop in the unemployment rate—translates into higher incomes and, most importantly, improved consumer spirits. Already in October, personal incomes jumped by almost 14½ percent at an annual rate—the most since August, 1981—while consumer confidence in November, as reported by the Conference Board, showed the highest pre-Christmas reading in the past five years. When all this is added to the lower rate of inflation and the Administration's tax cut, it equals enough reasons for consumers to lift their spending substantially, giving retailers plenty to be cheerful about.

With the Holiday buying season just about half over, sales are up impressively over last year's levels. Although consumers are still value-conscious and conditioned to specials, shoppers are actually opening their wallets without extensive browsing and bargain hunting. In fact, luxury and big-ticket discretionary items are selling especially well, as if people were unleashing three or four years of pent-up demand. Best selling items vary from apparel, toys, physical fitness equipment and fashion accessories, to jewelry and such electronic gadgetry as video tape recorders, personal computers and cordless telephones.

. . . It's A Season . . .

In November, most major retail concerns reported double-digit boosts in sales compared with year-earlier levels, capped by heavy buying during the three-day post-Thanksgiving weekend, when store traffic in many shopping centers was limited only by the size of their parking lots. Retailers are rejoicing over the early turnout, since it reduces the need for the profit-draining promotional sales they were forced to conduct in the past several years. Then, shoppers tended to do their buying as close to December 25 as possible, hoping that prices would be slashed to the bone. Surprisingly, even sales of large appliances are up sharply. The Association of Home Appliance Manufacturers says that this October's total unit shipments were 30 percent above a year ago. With only one exception, it was the best October ever. Sales of refrigerators were up more than 20 percent year-over-year, electric ranges were up over 30 percent and shipments of microwave ovens jumped nearly 65 percent.

PRODUCTION AND EMPLOYMENT INDICATORS IN MANUFACTURING: % CHANGE DURING FIRST 11 MONTHS OF RECOVERY



While most determinants of consumer spending look positive, the improvement in the employment situation is probably the most important. To be sure, employment normally rises at this time every year as business temporarily hires people for the holidays. But last month's rise was over and above seasonal expectations. It brought the increase in total civilian employment to 3½ million workers since the onset of the recovery, lifting the employment ratio (the number of employed divided by the noninstitutional population over 16 years of age) to 59.1 percent—the highest in more than two years.

. . . To Be Jolly

But despite the significantly stepped-up pace of business activity compared with a year ago, businessmen do not seem to be as eager to expand their payrolls as they used to be, in the wake of previous postwar recessions. This is particularly true in manufacturing. Industrial production during the 11 months ending in October rose almost 30 percent faster than the average of the comparable periods following earlier downturns, but payrolls advanced by about 4½ percent in both cases (see chart).

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This is partially a consequence of greatly improved productivity, but it also shows that manufacturers are more cautious now, wanting to be sure that the recovery is well underway before expanding payrolls. Instead, they have been lengthening the workweek of existing workers. For example, durable goods manufacturers have added seven percent more workers to their payrolls since the onset of the recovery, but total hours worked grew twice as fast. Similarly, while the number of jobs in nondurable manufacturing increased by 2.8 percent, hours jumped nearly seven percent.

Still, there is no denying that many more people have joined the ranks of the employed. Thus, total wages and salaries paid have grown handsomely during the six months ending in October—rising by 9.8 percent at a seasonally adjusted annual rate. Thanks to the low rate of inflation and July's tax cut, total "real" disposable income has gone up in the past six months by 5.5 percent at a seasonally adjusted annual rate—the highest half year rate in over two years.

Buying power is also being boosted by high interest rates. While on the one hand purchases of some big-ticket durables and homes continue to be impeded by steep financing costs, savers have benefited from these high rates of interest. Overall, personal income spurted 1.2 percent in October, the largest monthly gain since August, 1981.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/30/83	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	158.347	− .311	+13.715
Loans to Depository Inst.	.880	+ .065	+ .258
Float	1.673	+ .561	− 1.684
Total Reserve Bank Credit	168.980	+ .338	+11.342
Treasury Deposits with Federal Reserve Banks	2.881	+ .440	− .374
Currency Outside Banks	148.723	− .602	+13.486
Member Bank Reserves:			
Required	38.203	+ .220	− 3.152
Excess (Deficiency)	.570	+ .283	+ .074
Total Reserves Held	38.773	+ .503	− 3.078
Net Borrowed Reserves	.174	− .227	+ .268
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.906	− .806	+ 8.588

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	517.1	+ 1.8‡	+ 9.3‡
M2 (November '83)	2,176.0	+ 7.3	+ 11.9
M3 (November '83)	2,588.7	+ 9.6	+ 9.2
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/9/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.00%	9.15%	9.25%
* Federal Agencies	9.50	9.75	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	9.63	10.09	11.02
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.65	9.97	10.50

‡ Finance Company Paper—Prime	
5- 14 days	9.35%
15- 29 days	9.38
30- 59 days	9.38
60- 89 days	9.35
90-179 days	9.25
180-239 days	9.10
240-270 days	9.10

‡* Bankers' Acceptances	
Jan.	9.60%
Feb.	9.60
Mar.	9.60
Apr.	9.65
May	9.65
Jun.	9.60

‡ Industrial Paper—Prime	
30- 89 days	9.40%
90-120 days	9.40

† Federal Funds Effective Rate	9.47%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,360	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.7	9.7	− 1.0
Change in Consumer Prices (new series)*	Oct '83	4.8%	6.0%	4.8%
Change in Producer Prices*	Oct '83	3.6%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Nov '83	102,671	101,928	99,136
Unemployment as % of Civilian Labor Force †	Nov '83	8.4%	8.8%	10.7%
Personal Income*	Oct '83	$ 2,819	$ 2,786	$ 2,618
Leading Indicators Composite Index (1967=100) †	Oct '83	161.8	160.5	138.6
Industrial Production Index (1967=100) †	Oct '83	154.8	153.6	135.7
Net Change in Consumer Installment Credit †	Sep '83	$ 2.38	$ 3.39	$ 1.26
U.S. Merchandise Trade Balance †	Oct '83	−$ 8.97	−$ 5.81	−$ 5.26
Plant and Equipment Expenditures*	1st Q'84n	$323.07(a)	$321.60r(a)	$293.03
Private Housing Starts (Thousands of Units)*	Oct '83	1,608	1,672	1,142
New Construction Expenditures*	Oct '83	$ 269.5	$ 276.4	$ 234.1
Total Business Inventories †	Sep '83	$ 513.8	$ 510.4	$ 521.0
Total Business Sales †	Sep '83	$ 380.0	$ 374.4	$ 342.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Spending by consumers is also influenced by their near-term outlook for the economy in general and their job and income prospects in particular. According to the Conference Board, consumer spirits rose almost four points in November, soaring nearly 35 points above year-earlier levels. Importantly, of those canvassed, nearly nine out of ten believe that the employment situation within the next six months will be the same or even better. In contrast, a year ago only 73 percent of respondents were this optimistic. This ties in with a survey conducted by *Advertising Age* in November, which showed that almost 90 percent expect to be at least as well off a year from now as they are today.

Finally, since inflation has been kept in check, buying power for most consumers has remained intact. In October, the Consumer Price Index (CPI) stood only 2.9 percent higher than a year ago, despite a slight acceleration in the past three months to a seasonally adjusted 5.5 percent rise at an annual rate. However, for the average consumer, the actual inflation rate is much lower. This is because some of the steepest increases recently were registered in transportation and housing costs—and most people buy a new car or a new home infrequently. In the past three months, the transportation component was responsible for more than 40 percent of the rise in the CPI, the housing component for nearly one third, while food costs added less than one sixth.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/23/83)	89,389	+ 2,080	–54,193
New York City (11/23/83)	19,118	+ 1,103	–18,539
Commercial Paper (11/23/83)	182,785	+ 56	+14,913*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/23/83)	216,289	– 455	+ 214
New York City (11/23/83)	57,500	– 813	– 3,375

	Total Loans Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/23/83)	521,315	– 970	+18,362
New York City (11/23/83)	119,910	– 1,062	+ 184

Financial Markets

	Friday 12/9/83	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.35%	+ .10	+ 1.15
180-Day Bills†	9.75	+ .05	+ .95
Longest Bills†	10.10	+ .10	+ 1.02
Recent Issues:			
$10\frac{1}{2}$s 10/31/85	10.82	+ .12	
$11\frac{1}{8}$s 9/30/87	11.40	+ .12	
$11\frac{3}{4}$s 11/15/93	11.87	+ .12	
12s 8/15/13	11.95	+ .17	
Municipals:			
Bond Buyer–20 Bond Index* (12/8/83)	9.91%	+ .09	– .22
Blue List Total ($ Million)	$1,762	+$ 162	+ $ 347
30-Day Visible Supply ($ Million)	$2,942	–$1,266	+ $ 858
Total	$4,704	–$1,104	+ $1,205
Corporates:			
Moody's Aa Composite (12/8/83)	12.75%	+ .17	+ .28
30-Day Visible Supply ($ Million)	$1,831	+$ 701	+ $ 681
Stocks:			
Dow-Jones Averages:			
Industrials	1,260.06	– 5.18	+ 241.30
Transportation	604.91	– .38	+ 165.99
Utilities	133.91	– .96	+ 15.74
65 Stocks	505.84	– 2.05	+ 106.11
Standard and Poor's 500 Stocks	165.09	– .35	+ 25.52
N.Y.S.E. Composite Index	95.39	– .27	+ 14.90
N.Y.S.E. Avg. Daily Vol. for Week (000's)	95,784	– 4,296	+ 1,730

* 46% Taxable equivalent 18.35%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/9/83	Week Ago
Overnight	9.44%	9.25%
1 month	10.06	9.63
3 month	10.06	9.75
6 month	10.38	10.00
1 year	10.81	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.55%
Long Term (7 to 15 yrs.)	11.70	11.65

FOREIGN EXCHANGE SPOT RATES **New York Opening (12/9/83)**	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01794	55.75
Canada	.8014	1.2478
Denmark	.1005	9.9505
France	.1197	8.3525
Germany	.3637	2.7495
Italy	.0006004	1665.50
Japan	.004234	236.18
Mexico	.006135	163.00
Netherlands	.3246	3.0810
Switzerland	.4517	2.2138
U.K.	1.4350	.6969

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 19, 1983
VOLUME XX, NUMBER 46

Global Economic Prospects . . .

With the United States now in its second year of economic upswing, the absence of similar growth in most of the other industrialized economies is beginning to cause some concern. If recovery in the United States is not accompanied by expansion in the other major economies, the U.S. recovery will be short and weaker. In this instance the developing countries (LDCs) would not get much of a chance to participate in the resurgence in world trade, and thus will not increase their export earnings all that much.

Only Canada and Japan among the principal developed countries are currently showing evidence of strong growth. The Canadian economy has rebounded in tandem with the U.S. After 1½ years of declining real GNP, Canada's economy surged at the beginning of 1983, growing by an average annual rate of about seven percent in each of the first three quarters.

As the principal trading partner of the U.S., Canada has clearly benefited from the improvement in this country. For the year 1983, growth in real GNP should be near three percent and about five percent in 1984—close to the expected performance of the United States. Japan, whose economy slowed but did not enter a recession in 1981 and 1982, has also responded to the change in the global economic outlook. This year real growth should exceed three percent after 1982's 2.9 percent rise; the increase should be near five percent in 1984. Although imports into Japan fell sharply below 1982 levels in the early part of 1983, in recent months there has been a pickup, and this trend is expected to continue through 1984.

. . . Depend On European Recovery . . .

There is evidence that recovery has begun in Europe, but economic improvement is still hesitant and not broadly based. In the four principal European countries (the United Kingdom, West Germany, France and Italy), the indexes of leading indicators point clearly toward recovery. But as of July (latest available data), the coincident indicators for these countries were flat. Nevertheless, real growth in the U.K. is expected to be close to three percent this year with similar growth in 1984. In Germany, by contrast, the growth pattern is more sluggish. Real GNP is expected to rise only one percent this year and 2.5 percent next year. In France and Italy, signs of improvement are less clear; their recoveries may well be delayed until the second half of 1984—or beyond.

In Europe as a whole, recovery from the recent recession will be weak and uncoordinated. Poor economic performance by many of the smaller and less industrialized European countries will retard growth for the region. This year, Europe will grow by less than one percent in real terms and next year by perhaps two percent. What is more, the inability of the leaders of the European Economic Community (EEC) to agree on a common EEC agricultural policy, as well as the acrimony of their debates, suggests that the EEC may be entering a period of less rather than more economic and political cooperation. This would be unfortunate, since economic recovery in Europe is dependent on growth in intra-community trade. In France, Germany and the U.K., exports equal between 20 and 30 percent of their economies. Europe as a whole takes over 65 percent of Germany's exports and France alone accounts for about 15 percent.

Needless to say, economic growth in Europe is essential for the benefits of recovery to spread to the LDCs. Although the United States is the largest single purchaser of exports from the rest of the world (about 15 percent) and Japan buys some nine percent, the ten EEC countries take about one-third of the exports of the countries outside of the EEC's borders. Along with import restrictions, the turnaround in the trade balances of several of the high-debt Latin American LDCs has required strong export efforts. The Latin American LDCs, for example, increased their total export receipts by over 12 percent in the second quarter of this year over the same quarter in 1982, while their imports rose by less than nine percent. Although much of this rise in exports went to the U.S. in response to the strong recovery here, continued growth in the LDC exports will be largely dependent upon Europe which usually takes between 25 and 30 percent of Latin America's exports.

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. . . And Growing World Trade

For the LDCs, international commodity prices are a key factor. Many of these countries are dependent upon exports of a single commodity or a small group of basic commodities to generate the foreign exchange which they require to finance imports and service their external debts. Most commodity prices have risen over the past year—in some cases dramatically. Cocoa prices are 53 percent above year-ago levels, rubber is up by almost 40 percent and sugar, though still in oversupply, is selling at 31 percent above the very depressed levels of a year ago. In October, the commodity index, developed by the IMF, which includes foodstuffs, industrial inputs and metals was 16 percent above the same period in 1982. Nonetheless, prices for a few commodities which are the principal exports for several high-debt LDCs have gone up only slowly or not at all. Coffee prices have risen only six percent since November of last year. Prices for electrolytic copper actually have declined by almost four percent since last November in spite of a temporary improvement in midyear.

The drop in crude oil prices this year has been a mixed blessing. While it has facilitated the recovery of the U.S. economy as well as in several other developed countries and in the non-oil producing LDCs, it has affected the export proceeds not only of the OPEC nations, but of such oil-producing

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/7/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.049	+ .702	+14.598
Loans to Depository Inst.	.442	– .438	+ .005
Float	1.246	– .529	– 1.982
Total Reserve Bank Credit	168.744	– .338	+11.392
Treasury Deposits with Federal Reserve Banks	3.143	+ .262	+ .109
Currency Outside Banks	149.041	+ .318	+13.284
Member Bank Reserves:			
Required	37.698	– .505	– 2.914
Excess (Deficiency)	.391	– .281	+ .077
Total Reserves Held	38.089	– .786	– 2.837
Net Free Reserves	.040	+ .112	– .049
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.880	– .026	+ 6.765

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	522.7	+ 2.5‡	+ 9.2‡
M2 (November '83)	2,176.0	+ 7.3	+ 11.9
M3 (November '83)	2,588.7	+ 9.6	+ 9.2
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/16/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.40%	9.75%	10.00%
* Federal Agencies	9.50	9.80	10.20
* Project Notes—Taxfree (46% Taxable Equivalent)	9.63	10.09	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.00	10.13	10.80

‡Finance Company Paper—Prime	
5- 14 days	9.75%
15- 29 days	9.88
30- 59 days	9.75
60- 89 days	9.25
90-179 days	9.25
180-239 days	9.25
240-270 days	9.25

‡* Bankers' Acceptances	
Jan.	9.90%
Feb.	9.80
Mar.	9.80
Apr.	9.80
May	9.80
Jun.	9.70

‡Industrial Paper—Prime	
30- 89 days	9.82%
90-120 days	9.80

†Federal Funds Effective Rate 9.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,360	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.7	9.7	– 1.0
Change in Consumer Prices (new series)*	Oct '83	4.8%	6.0%	4.8%
Change in Producer Prices*	Nov '83n	– 2.4%	3.6%	7.2%
Civilian Employment (Thousands of Persons)†	Nov '83	102,671	101,928	99,136
Unemployment as % of Civilian Labor Force†	Nov '83	8.4%	8.8%	10.7%
Personal Income*	Oct '83	$ 2,819	$ 2,786	$ 2,618
Leading Indicators Composite Index (1967=100)†	Oct '83	161.8	160.5	138.6
Industrial Production Index (1967=100) †	Nov '83n	156.3	155.1r	134.9
Net Change in Consumer Installment Credit †	Oct '83n	$ 4.89	$ 2.38	–$ 0.13
U.S. Merchandise Trade Balance †	Oct '83	–$ 8.97	–$ 5.81	–$ 5.26
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Oct '83	1,608	1,672	1,142
New Construction Expenditures*	Oct '83	$ 269.5	$ 276.4	$ 234.1
Total Business Inventories †	Oct '83n	$ 516.1	$ 513.9r	$ 519.8
Total Business Sales †	Oct '83n	$ 382.1	$ 380.6r	$ 336.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

LDCs as Mexico. Nonetheless, in the third quarter of this year, export earnings of the oil-exporting countries rose by over 20 percent above second quarter earnings as increased oil sales related to the slowing of inventory decumulation and to economic recovery in the U.S. and elsewhere compensated for the lower price.

However, this may not last. While the recent OPEC meeting did not result in a price cut, the economic problems of some OPEC members, the constant temptation to exceed their quotas, and the existence of large oil producers outside the OPEC cartel, suggest that lower rather than higher oil prices may be ahead.

World trade is expected to grow in volume by about two to three percent in 1984 after two percent growth in 1983. In 1982, world trade fell by two percent, while imports into the industrial countries fell by only one-half of a percentage point. In was, however, the third consecutive year of declines in these imports—a factor which, no doubt, contributed to the liquidity problems of several LDCs. This trend was probably reversed in 1983 due to the sharp increase in exports by LDCs and other countries to the United States. Next year, with a nascent recovery in Europe as well as continuing recovery in the U.S., Canada and Japan, the foreign exchange earnings of the LDCs should improve substantially.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/30/83)	89,374	– 35	–51,803
New York City (11/30/83)	18,990	– 128	–18,259
Commercial Paper (11/30/83)	182,517	– 261	+16,014

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/30/83)	217,311	+ 969	– 396
New York City (11/30/83)	57,644	+ 143	– 3,999

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/30/83)	523,459	+ 2,083	+17,022
New York City (11/30/83)	119,928	+ 19	– 1,374

Financial Markets

	Friday 12/16/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.45%	+ .10	+ 1.25
180-Day Bills†	9.85	+ .10	+ 1.25
Longest Bills†	10.05	– .05	+ 1.15
Recent Issues:			
$10\frac{1}{2}$s 10/31/85	10.82	–0–	
$11\frac{1}{8}$s 9/30/87	11.40	–0–	
$11\frac{3}{4}$s 11/15/93	11.85	– .02	
12s 8/15/13	11.92	– .03	
Municipals:			
Bond Buyer–20 Bond Index* (12/15/83)	10.04%	+ .13	– .01
Blue List Total ($ Million)	$1,754	– $ 8	+ $ 358
30-Day Visible Supply ($ Million)	$2,869	– $ 73	+ $1,949
Total	$4,623	– $ 81	+ $2,307
Corporates:			
Moody's Aa Composite (12/15/83)	12.85%	+ .10	+ .38
30-Day Visible Supply ($ Million)	$1,720	– $111	+ $1,023
Stocks:			
Dow-Jones Averages:			
Industrials	1,242.17	– 17.89	+ 230.67
Transportation	590.15	– 14.76	+ 145.83
Utilities	131.02	– 2.89	+ 13.73
65 Stocks	496.64	– 9.20	+ 97.44
Standard and Poor's 500 Stocks	162.39	– 2.70	+ 24.90
N.Y.S.E. Composite Index	93.86	– 1.53	+ 14.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	85,190	–10,594	+ 6,670

* 46% Taxable equivalent 18.59%.

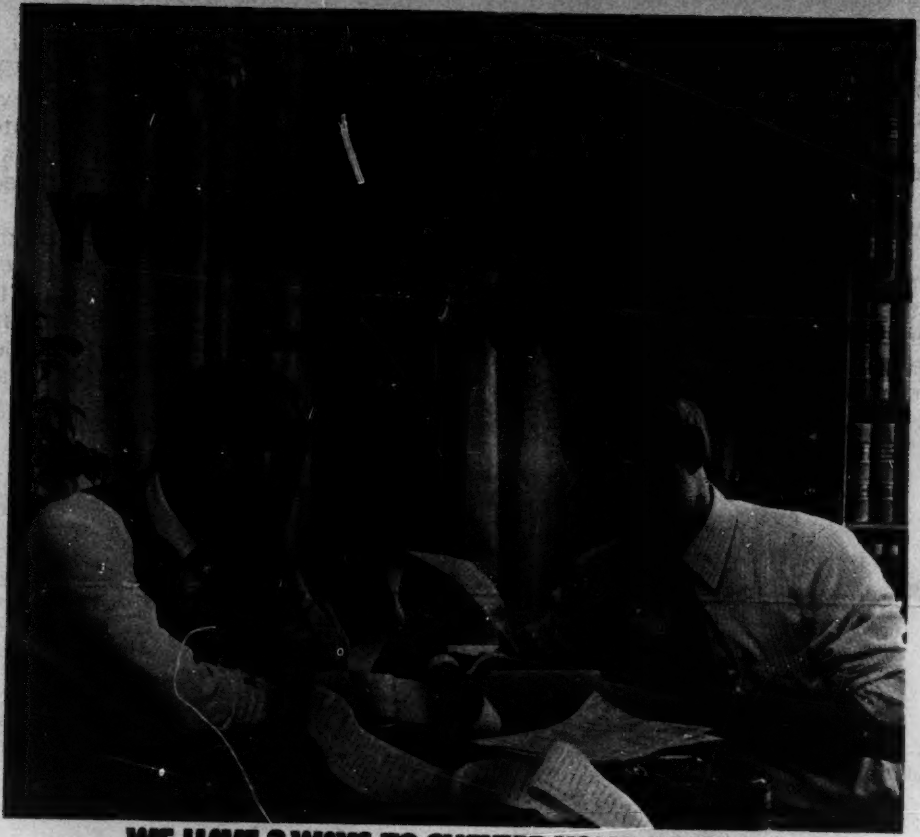
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/16/83	Week Ago
Overnight	9.75%	9.44%
1 month	10.44	10.06
3 month	10.38	10.06
6 month	10.50	10.38
1 year	10.75	10.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.60%
Long Term (7 to 15 yrs.)	11.75	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/16/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01771	56.47
Canada	.8001	1.2498
Denmark	.0997	10.0260
France	.1180	8.4715
Germany	.3609	2.7710
Italy	.0005956	1679.00
Japan	.004248	235.38
Mexico	.006144	162.75
Netherlands	.3215	3.1105
Switzerland	.4518	2.2135
U.K.	1.4183	.7051



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

DECEMBER 26, 1983/JANUARY 2, 1984

VOLUME XX, NUMBER 47

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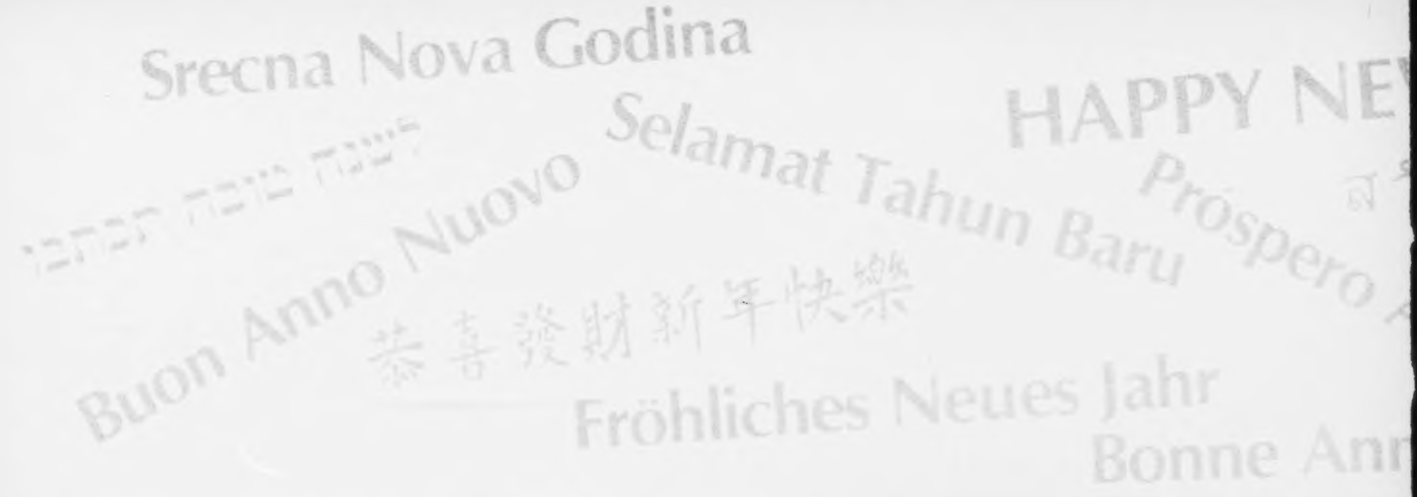


Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/14/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	159.317	+ .268	+13.062
Loans to Depository Inst.	.630	+ .188	− .073
Float	1.616	+ .251	− .731
Total Reserve Bank Credit	169.721	+ .858	+11.032
Treasury Deposits with			
Federal Reserve Banks	3.266	+ .123	− .075
Currency Outside Banks	149.157	+ .116	+13.083
Member Bank Reserves:			
Required	37.956	+ .258	− 3.550
Excess (Deficiency)	.519	+ .009	− .035
Total Reserves Held	38.475	+ .267	− 3.585
Net Borrowed Reserves	.021	+ .180	+ .085
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	113.454	+ 1.574	+ 7.953

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	520.7	+ 3.3‡	+ 9.0‡
M2 (November '83)	2,176.1	+ 7.3	+ 11.9
M3 (November '83)	2,588.7	+ 9.6	+ 9.2
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/23/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.85%	9.10%	9.20%
* Federal Agencies	9.50	9.70	10.15
* Project Notes—Taxfree (46% Taxable Equivalent)	9.54	10.09	11.02
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.72	9.82	10.20

‡Finance Company Paper—Prime	
5- 14 days	9.75%
15- 29 days	9.70
30- 59 days	9.65
60- 89 days	9.50
90-179 days	9.35
180-239 days	9.10
240-270 days	9.10

‡* Bankers' Acceptances	
Jan.	9.80%
Feb.	9.70
Mar.	9.60
Apr.	9.55
May	9.50
Jun.	9.40

‡Industrial Paper—Prime	
30- 89 days	9.63%
90-120 days	9.63

†Federal Funds Effective Rate 9.05%

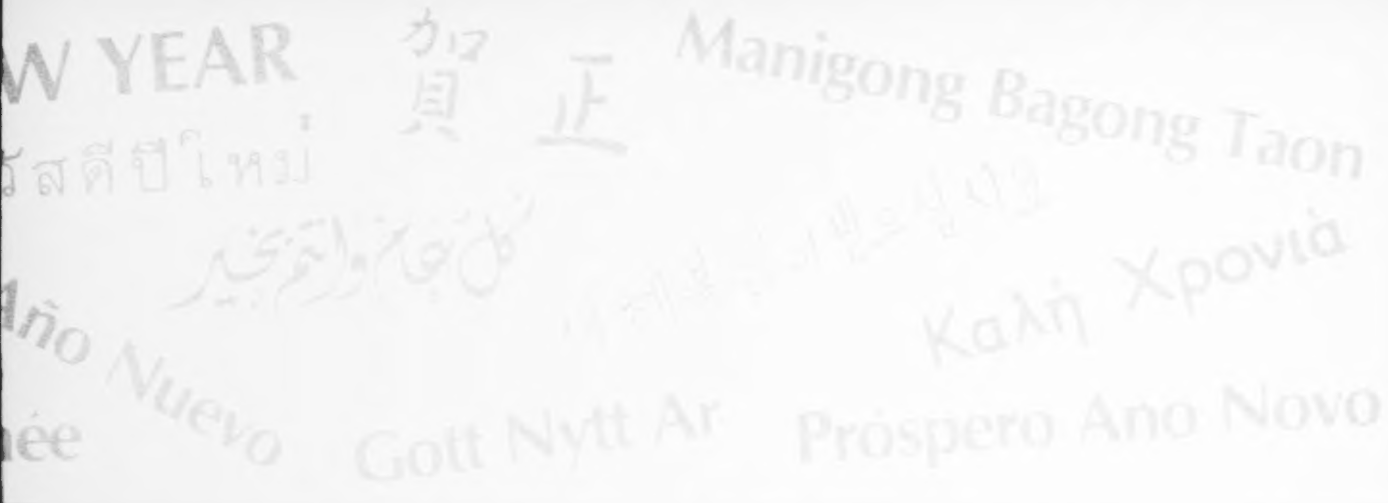
‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,362r	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,553r	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.6r	9.7	− 1.0
Change in Consumer Prices (new series)*	Nov '83n	3.6%	4.8%	0.0%
Change in Producer Prices*	Nov '83	− 2.4%	3.6%	7.2%
Civilian Employment (Thousands of Persons)†	Nov '83	102,671	101,928	99,136
Unemployment as % of Civilian Labor Force†	Nov '83	8.4%	8.8%	10.7%
Personal Income*	Nov '83n	$ 2,832	$ 2,812r	$ 2,633
Leading Indicators Composite Index (1967=100)†	Oct '83	161.8	160.5	138.6
Industrial Production Index (1967=100) †	Nov '83	156.3	155.1	134.9
Net Change in Consumer Installment Credit †	Oct '83	$ 4.89	$ 2.38	−$ 0.13
U.S. Merchandise Trade Balance †	Oct '83	−$ 8.97	−$ 5.81	−$ 5.26
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Nov '83n	1,756	1,650r	1,361
New Construction Expenditures*	Oct '83	$ 269.5	$ 276.4	$ 234.1
Total Business Inventories †	Oct '83	$ 516.1	$ 513.9	$ 519.8
Total Business Sales †	Oct '83	$ 382.1	$ 380.6	$ 336.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/7/83)	88,931	– 493	–51,157
New York City (12/7/83)	18,709	– 281	–18,619
Commercial Paper (12/7/83)	182,003	– 500	+ 9,007

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/7/83)	218,267	+ 814	+ 1,760
New York City (12/7/83)	58,252	+ 608	– 3,064

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/7/83)	525,818	+ 2,281	+20,017
New York City (12/7/83)	120,780	+ 852	– 725

Financial Markets

	Friday 12/23/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.30%	– .15	+ 1.10
180-Day Bills†	9.75	– .10	+ 1.25
Longest Bills†	10.10	+ .05	+ 1.30
Recent Issues:			
10⁷/₈s 12/31/85 (When Issued)	10.87	NA	
11¹/₈s 9/30/87	11.35	– .05	
11³/₄s 11/15/93	11.75	– .10	
12s 8/15/13	11.87	– .05	
Municipals:			
Bond Buyer–20 Bond Index* (12/22/83)	9.92%	– .12	+ .08
Blue List Total ($ Million)	$1,536	– $218	+ $ 290
30-Day Visible Supply ($ Million)	$2,169	– $700	+ $1,213
Total	$3,705	– $918	+ $1,503
Corporates:			
Moody's Aa Composite (12/21/83)	12.84%	+ .02	+ .36
30-Day Visible Supply ($ Million)	$1,895	+ $175	+ $1,138
Stocks:			
Dow-Jones Averages:			
Industrials	1,250.51	+ 8.34	+ 205.44
Transportation	587.26	– 2.89	+ 140.09
Utilities	130.64	– .38	+ 12.61
65 Stocks	497.64	+ 1.00	+ 89.85
Standard and Poor's 500 Stocks	163.22	+ .83	+ 23.50
N.Y.S.E. Composite Index	94.17	+ .31	+ 13.78
N.Y.S.E. Avg. Daily Vol. for Week (000's)	87,242	+ 2,052	+ 15,599

* 46% Taxable equivalent 18.37%.

† Bond equivalent.

International Rates

	Friday 12/23/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.13%	9.75%
1 month	10.06	10.44
3 month	10.06	10.38
6 month	10.25	10.50
1 year	10.50	10.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.65%
Long Term (7 to 15 yrs.)	11.75	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/23/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01776	56.32
Canada	.8028	1.2456
Denmark	.09984	10.0160
France	.1183	8.4525
Germany	.3619	2.7635
Italy	.0005965	1676.50
Japan	.004276	233.85
Mexico	.006061	165.00
Netherlands	.3221	3.1050
Switzerland	.4542	2.2015
U.K.	1.4296	.6995

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 9, 1984 VOLUME XXI, NUMBER 1

Despite The New Year . . .

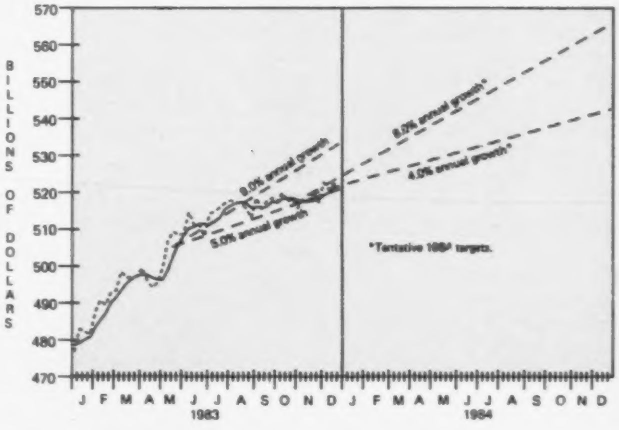
Despite the onset of a new year, some things never change. One of them is the unending speculation as to the direction of Federal Reserve monetary policy and interest rates. For while such recent signs of a moderating pace of business activity as November's dip in the index of leading economic indicators and the "flash" estimate of fourth quarter real gross national product growth have briefly dampened fears of a firming of monetary policy, this welcome interlude may last only as long as the next report on retail sales and industrial production.

For better or worse, market participants continue to ignore a wide variety of factors which suggests that both monetary policy and interest rates will hold basically steady in early 1984. And while a slowing of growth, modest rates of inflation and well-behaved money supply numbers should nudge interest rates slightly lower, prospects for either a significant rate drop or another upward spiral appear equally unfounded.

Take, for example, the likelihood of a free-fall in interest rates. For this to happen, either one of two things, or both, would have to occur: namely, accumulating evidence of a renewed recession just around the corner, and a subsequent easing of the monetary reins to forestall just such an occurrence. With business bankruptcies still running at near-record highs, almost 9¼ million people still unemployed and liquidity strains still affecting some developing countries, the Fed simply could not sit by and allow another recession to develop. But while such a one-two punch of imminent recession and aggressive easing would undoubtedly deflate today's lofty pattern of interest rates, neither seems likely. With consumer confidence now standing at a five-year high, factory orders bulging, inventories being replenished and industrial production rising as a result, the required ingredients for renewed recession are just not in sight—notwithstanding the flattening of M1 money growth since last summer.

To be sure, the pace of business activity is decelerating. But rather than signaling another recession, this development should be precisely what the credit markets are looking for. As the stimulative effect of the initial burst of consumer spending on such items as homes and autos tapers off, and the swing in inventories from liquidation to accumulation provides less of an uplift to business activity, growth settles into a slower, albeit more sustainable pace—typical of the second year of recovery. To ease the monetary reins substantially in this environment would only run the risk of overheating the economy, hastening the long-awaited clash between public and private borrowings and reigniting inflation expectations.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE)
VS. WEEKLY FIGURES (DOT)



. . . Few Changes Appear In Store . . .

As long as the business recovery remains solidly on track, prospects for an overt shift toward monetary ease and a sharp tumble in interest rates appear distant. However, despite frequent observations that the Fed has, or is about to step hard on the money and credit brakes, the likelihood of another upward spiral in rates seems even more distant.

For one thing, to allow this to occur would partially erode the already substantial gains made by several developing countries in restoring external financial health. For another, at a time when the Fed finds its twin nemeses of inflation and ill-behaved money supply numbers at least dormant, if not entirely vanquished, there is simply no need for an abrupt

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shift toward restraint. Wholesale prices actually declined in November, consumer prices are edging up only modestly and unit labor costs, which ultimately determine the long-run behavior of both, are rising at their slowest rate since the mid-1960s. While the central bank remains convinced that it must play the decisive public policy role in combating inflation, recent and even prospective price trends hardly seem inconsistent with Fed Chairman Paul Volcker's desire for "a trend toward greater price stability."

. . . For Monetary Policy

What is more, the recent trend in money growth should help curb inflation expectations in the new year—a seemingly better bet than the belief that it will soon produce another recession. Over the past three months, M1, for example, has expanded at one of its slowest quarterly growth rates since mid-1982—by just about 3½ percent. This has placed this aggregate's year-to-date growth only $2 billion above its lower growth target boundary and more than $10 billion below its upper growth target (see chart on page 1).

In fact, the deceleration in M1 growth during the past three months has been so pronounced that this money measure could have expanded at an annual rate more than three times its actual growth rate

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/28/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	160.143	– 2.272	+13.221
Loans to Depository Inst.	.757	– .302	+ .067
Float	3.621	+ 1.937	+ .231
Total Reserve Bank Credit	173.007	– .453	+11.599
Treasury Deposits with Federal Reserve Banks	3.729	– .379	+ .401
Currency Outside Banks	151.528	+ .611	+12.691
Member Bank Reserves:			
Required	38.540	– .209	– 2.703
Excess (Deficiency)	.500	– .196	– .263
Total Reserves Held	39.040	– .405	– 2.966
Net Borrowed Reserves	.139	– .123	+ .447
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.846	– 1.051	+ 6.704

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	521.5	+ 3.3‡	+ 8.9‡
M2 (November '83)	2,175.6	+ 7.2	+ 11.9
M3 (November '83)	2,587.0	+ 9.3	+ 9.1
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/6/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.85%	9.05%	9.10%
* Federal Agencies	9.15	9.50	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	9.63	10.09	10.93
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.50	9.67	10.13

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.30%	Feb.	9.30%
15- 29 days	9.30	Mar.	9.30
30- 59 days	9.30	Apr.	9.25
60- 89 days	9.25	May	9.25
90-179 days	9.20	Jun.	9.25
180-239 days	9.05	Jul.	9.20
240-270 days	9.05		

‡ Industrial Paper—Prime			
30- 89 days	9.25%	† Federal Funds Effective Rate	9.40%
90-120 days	9.25		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,362	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,553	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.6	9.7	– 1.0
Change in Consumer Prices (new series)*	Nov '83	3.6%	4.8%	0.0%
Change in Producer Prices*	Nov '83	– 2.4%	3.6%	7.2%
Civilian Employment (Thousands of Persons) †	Dec '83n	102,941	102,606r	99,093
Unemployment as % of Civilian Labor Force †	Dec '83n	8.2%	8.4%	10.8%
Personal Income*	Nov '83	$ 2,832	$ 2,812	$ 2,633
Leading Indicators Composite Index (1967=100) †	Nov '83n	161.8	162.4r	139.4
Industrial Production Index (1967=100) †	Nov '83	156.3	155.1	134.9
Net Change in Consumer Installment Credit †	Oct '83	$ 4.89	$ 2.38	–$ 0.13
U.S. Merchandise Trade Balance †	Nov '83n	–$ 7.40	–$ 8.97	–$ 3.89
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Nov '83	1,756	1,650	1,361
New Construction Expenditures*	Nov '83n	$ 271.9	$ 271.9r	$ 243.7
Total Business Inventories †	Oct '83	$ 516.1	$ 513.9	$ 519.8
Total Business Sales †	Oct '83	$ 382.1	$ 380.6	$ 336.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

and still have remained within its 1983 target ranges! So, too, the year-to-date growth rates of M2 and M3 are within their respective growth targets. M2 is located at about the midpoint of its 1983 target range, and M3 is at the top of its target boundaries. Thus, the behavior of the Fed's money supply numbers warrants no move toward restraint—and, indeed, suggests the opposite, when you consider M1 trends alone.

With the pace of business activity slowing, inflation rates still modest and the behavior of the money supply presenting little challenge to the Fed, there are few signs on the horizon to suggest the likelihood of a major change in monetary policy—and a resulting, Fed-inspired swing in interest rates. All of these factors signal the need for neither additional restraint nor ease, but rather a steady policy posture.

Not even Washington's ongoing profligacy will be able to unduly disrupt the prevailing pattern of rates—at least over the near term. For now, despite the fact that one can usually find references on an almost daily basis to presumed tightenings and easings by the Fed, the bottom line is still that the central bank must, and should, feel fairly satisfied with today's business, inflation rate and money supply developments. So far, they have presided over a robust, non-inflationary recovery. With this achievement behind them, why change now?

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/21/83)	89,923	+ 549	–44,962
New York City (12/21/83)	18,522	– 351	–18,054
Commercial Paper (12/21/83)	182,638	– 1,128	+12,584

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/21/83)	219,652	+ 1,508	+ 2,372
New York City (12/21/83)	57,968	– 145	– 3,035

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/21/83)	530,065	+ 3,447	+20,603
New York City (12/21/83)	122,478	+ 1,527	+ 367

Financial Markets

	Friday 1/6/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.10%	– .20	+ 1.05
180-Day Bills†	9.50	– .25	+ 1.28
Longest Bills†	9.85	– .20	+ 1.35
Recent Issues:			
$10\frac{7}{8}$s 12/31/85	10.65	– .18	
$11\frac{1}{4}$s 12/31/87	11.20	– .17	
$11\frac{3}{4}$s 11/15/93	11.70	– .08	
12s 8/15/13	11.75	– .08	
Municipals:			
Bond Buyer—20 Bond Index* (1/5/84)	9.66%	– .10	+ .18
Blue List Total ($ Million)	$1,106	– $205	+ $ 140
30-Day Visible Supply ($ Million)	$2,477	+ $220	+ $1,045
Total	$3,583	+ $ 15	+ $1,185
Corporates:			
Moody's Aa Composite (1/5/84)	12.77%	+ .01	+ .39
30-Day Visible Supply ($ Million)	$1,020	– $710	+ $ 443
Stocks:			
Dow-Jones Averages:			
Industrials	1,286.75	+ 28.11	+ 210.68
Transportation	611.79	+ 13.20	+ 151.42
Utilities	134.83	+ 2.99	+ 10.34
65 Stocks	514.04	+ 11.10	+ 92.77
Standard and Poor's 500 Stocks	169.28	+ 4.35	+ 24.10
N.Y.S.E. Composite Index	97.71	+ 2.53	+ 14.04
N.Y.S.E. Avg. Daily Vol. for Week (000's)	120,633	+43,668	+ 23,061

* 46% Taxable equivalent 17.89%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/6/84	Week Ago
Overnight	9.44%	9.69%
1 month	9.56	9.69
3 month	9.81	9.82
6 month	10.00	10.07
1 year	10.38	10.32
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.60%
Long Term (7 to 15 yrs.)	11.70	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/6/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01749	57.18
Canada	.7997	1.2504
Denmark	.09917	10.0840
France	.1168	8.5645
Germany	.3561	2.8085
Italy	.0005881	1700.50
Japan	.004294	232.87
Mexico	.005952	168.00
Netherlands	.3176	3.1487
Switzerland	.4469	2.2378
U.K.	1.4072	.7106

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and Business Indicators

MONDAY, JANUARY 16, 1984 VOLUME XXI, NUMBER 2

Depressed Food Prices . . .

One of the more surprising but certainly most welcome developments accompanying the economic recovery has been the low rate of inflation. Retail prices advanced only 3.2 percent during the year ending November, 1983—an accomplishment, considering the robust pace of business expansion during this time period. Among the many contributors was a 0.6 percent decline in energy prices, a rise of only 2.6 percent in the cost of housing, thanks to lower interest rates, an increase in medical costs of 6.6 percent, after nearly four years of double-digit advances, and a 3.9 percent rise in the cost of entertainment—one of the lowest in ten years.

But the most important factor affecting day-to-day household budgets was the modest rise in the cost of food. Since one fifth of consumer spending is for food and beverages, the fact that prices at the nation's supermarkets rose only 1.1 percent in the year ending November, 1983, is particularly good news. This occurred on top of a 2.6 percent rise in the previous 12-month period, making this two-year increase the smallest in more than a decade.

. . . Hurt Farm Incomes . . .

While this has eased the pressures on consumers' wallets, it has not been so good for the nation's farmers. Indications are that their net incomes fell in 1983 for the second year in a row. To Washington's surprise, fewer farmers than anticipated decided to take possession of their payment-in-kind (PIK) commodities—valued at about $8.7 billion—in 1983. It is estimated that only 25 percent of the grain was redeemed in 1983 with the rest to be taken in the first half of 1984. Originally, the Department of Agriculture expected the split between 1983 and 1984 to be about equal.

Other contributors to the dismal 1983 profit picture were a sharp decline in overseas demand, partially the result of the high value of the U.S. dollar in relation to other major currencies, and sluggish domestic demand. However, by the end of the year the rise in prices farmers received for their commodities outpaced the increase in the cost of operations—a result of the dramatic decline in plantings. It is the first time this has happened in five years.

. . . Dampening Machinery Sales . . .

This has dampened the hopes of farm machinery manufacturers and dealers. They thought that farmers, newly flush with cash from the sales of PIK grains, would be crowding their showrooms, buying new equipment in anticipation of next year's planned increases in grain production. So far the only encouragement has come from sales of large tractors. In October, which is traditionally the busiest month of the year, farmers purchased 26 percent more tractors than a year ago and in November they bought three percent more than in the same month of 1982. But for the first 11 months of 1983, tractor sales ran 8.9 percent below those in the comparable period a year ago. On the other hand, sales of combines showed no improvement at yearend. In the January to November period they were 17 percent lower than during the same period in 1982, falling by an average of nearly 30 percent, year-over-year, in October and November.

Farmers apparently prefer paying off old debts rather than acquiring new, often purchasing used equipment when possible. Many of them still carry dangerously large debt burdens acquired at lofty rates of interest as a result of overambitious borrowing in the late 1970s. At that time, commodities' prices and land values were rising rapidly—making it a seemingly good bet that returns would exceed borrowing costs. Unfortunately, over the last two years, the value of both commodities and land has plunged.

The Farm Credit Administration reports that borrower bankruptcies and loan liquidations under its programs increased dramatically in 1983 compared with the previous two years. About one percent of Federal Land Bank loans outstanding were under liquidation in the third quarter of 1983 compared with an average of .27 percent in 1981. Similarly, about 2.6 percent of short- and intermediate-term loans extended by Production

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Credit Associations were delinquent in the third quarter—a rate nearly five times 1981's average.

. . . But A Change Is Likely

However, the picture improved in the fourth quarter, portending that farm income may be headed higher. Prices that farmers received for their products rose more than four percent in the last two months of the year, while the prices they paid for production expenses remained unchanged. As a result, the ratio of prices received to prices paid rose in December to 86 (1977=100), its second highest level in 16 months. Nevertheless, for the year as a whole, the parity ratio appears to have fallen to its lowest level on record. What is more, in the first half of this year, farmers' incomes will be sharply boosted by stepped-up receipts of grain under the PIK program deferred from 1983.

These higher agricultural commodity prices will soon be apparent at supermarket checkout counters. To be sure, most of the increase expected to take place in 1984 will come as a result of the PIK program, last summer's drought and December's cold spell. Meat prices will probably be the fastest rising component of household food budgets. The high cost of feed grains and heat-related weight losses have forced ranchers to send more animals to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/4/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	162.475	+ 2.332	+14.689
Loans to Depository Inst.	1.297	+ .540	+ .099
Float	2.113	– 1.497	– .851
Total Reserve Bank Credit	174.845	+ 1.857	+12.342
Treasury Deposits with Federal Reserve Banks	3.436	– .293	– .752
Currency Outside Banks	152.335	+ .793	+13.872
Member Bank Reserves:			
Required	39.179	+ .639	– 2.181
Excess (Deficiency)	.945	+ .469	– .048
Total Reserves Held	40.124	+ 1.108	– 2.229
Net Borrowed Reserves	.274	+ .111	+ .249
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.186	+ 1.340	+ 7.989

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	522.0	+ 3.4‡	+ 9.0‡
M2 (December '83)	2,184.7	+ 11.5	+ 8.7
M3 (December '83)	2,599.7	+ 8.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/13/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	8.95%
* Federal Agencies	9.00	9.40	9.85
* Project Notes—Taxfree (46% Taxable Equivalent)	9.54	9.81	10.28
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.32	9.48	10.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.15%	Feb.	9.20%
15- 29 days	9.15	Mar.	9.20
30- 59 days	9.15	Apr.	9.20
60- 89 days	9.15	May	9.20
90-179 days	9.15	Jun.	9.20
180-239 days	9.00	Jul.	9.15
240-270 days	9.00		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	9.13%	Effective Rate	9.35%
90-120 days	9.13		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,362	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,553	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.6	9.7	– 1.0
Change in Consumer Prices (new series)*	Nov '83	3.6%	4.8%	0.0%
Change in Producer Prices*	Dec '83n	2.4%	– 2.4%	3.6%
Civilian Employment (Thousands of Persons)†	Dec '83	102,941	102,606	98,979r
Unemployment as % of Civilian Labor Force†	Dec '83	8.2%	8.4%	10.7%r
Personal Income*	Nov '83	$ 2,832	$ 2,812	$ 2,633
Leading Indicators Composite Index (1967=100)†	Nov '83	161.8	162.4	139.4
Industrial Production Index (1967=100)†	Dec '83n	156.9	156.1r	135.2
Net Change in Consumer Installment Credit†	Nov '83n	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance†	Nov '83	–$ 7.40	–$ 8.97	–$ 3.89
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Nov '83	1,756	1,650	1,361
New Construction Expenditures*	Nov '83	$ 271.9	$ 271.9	$ 243.7
Total Business Inventories†	Oct '83	$ 516.1	$ 513.9	$ 519.8
Total Business Sales†	Oct '83	$ 382.1	$ 380.6	$ 336.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

slaughter, trying to reduce cattle and hog inventories.

The number of cattle and calves on feed in the seven major beef-producing states stood six percent lower on December 1 than on the same date one year ago. The inventory of hogs for slaughter was still above 1982's level on December 1, but it was three percent below the June 1 inventory, reflecting heavy slaughtering in recent months. This means that fewer hogs and cattle will be available for slaughter this spring and summer, portending rising beef and pork prices.

In addition, last month's cold weather damaged pastures further and stressed livestock—setting back cattle and hog weights. The National Weather Service says that the week ending on December 26 was one of the coldest in the history of weather records. Parts of Montana reported average temperatures as much as 45 degrees below normal, and it was 36 degrees colder than normal in most of the Central Plains. Freezing weather reached into the Texas citrus area and then moved over the Florida citrus area where, according to latest estimates, it damaged nearly one quarter of the state's orange crop. The extreme cold damaged winter wheat in areas where snow cover was not sufficient to protect it. Prices of vegetables have already inched up on the heels of extensive damage in the South.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/28/83)	91,918	+ 1,996	–40,671
New York City (12/28/83)	19,001	+ 480	–16,611
Commercial Paper (12/28/83)	182,940	– 398	+16,418

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/28/83)	222,209	+ 2,551	+ 4,789
New York City (12/28/83)	58,793	+ 825	– 1,957

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/28/83)	534,228	+ 4,215	+25,788
New York City (12/28/83)	122,148	– 330	+ 2,663

Financial Markets

	Friday 1/13/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.05%	– .05	+ 1.30
180-Day Bills†	9.37	– .13	+ 1.42
Longest Bills†	9.67	– .23	+ 1.42
Recent Issues:			
$10^{7}/_{8}$s 12/31/85	10.45	– .20	
$11^{1}/_{4}$s 12/31/87	11.05	– .15	
$11^{3}/_{4}$s 11/15/93	11.55	– .15	
12s 8/15/13	11.65	– .10	
Municipals:			
Bond Buyer–20 Bond Index* (1/12/84)	9.67%	+ .01	+ .30
Blue List Total ($ Million)	$1,144	+ $ 38	+ $ 187
30-Day Visible Supply ($ Million)	$2,456	– $ 21	+ $ 830
Total	$3,600	+ $ 17	+ $1,017
Corporates:			
Moody's Aa Composite (1/12/84)	12.71%	– .06	+ .44
30-Day Visible Supply ($ Million)	$ 600	– $420	+ $ 320
Stocks:			
Dow-Jones Averages:			
Industrials	1,270.10	– 16.65	+ 189.25
Transportation	602.96	– 8.83	+ 135.28
Utilities	134.30	– .53	+ 9.67
65 Stocks	507.76	– 6.28	+ 83.42
Standard and Poor's 500 Stocks	167.02	– 2.26	+ 20.37
N.Y.S.E. Composite Index	96.66	– 1.05	+ 11.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	103,444	–17,189	+ 8,632

* 46% Taxable equivalent 17.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/13/84	Week Ago
Overnight	9.25%	9.44%
1 month	9.56	9.56
3 month	9.75	9.81
6 month	9.88	10.00
1 year	10.38	10.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.55%
Long Term (7 to 15 yrs.)	11.65	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/13/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01731	57.78
Canada	.8001	1.2498
Denmark	.09759	10.2470
France	.1154	8.6665
Germany	.3530	2.8332
Italy	.0005829	1715.50
Japan	.004263	234.55
Mexico	.006098	164.00
Netherlands	.3142	3.1830
Switzerland	.4454	2.2450
U.K.	1.4005	.7140

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 23, 1984
VOLUME XXI, NUMBER 3

The Big Apple Remains Ripe . . .

At first glance, the recovery of New York City's economy from the 1981-82 recession appears to have been less vigorous than that of the nation as a whole. But first appearances can be deceiving. This is because New York's economy is less dependent on such cyclically-sensitive industries as autos and steel which usually rebound sharply in the early stages of a business upturn. What is more, while the recovery may be moderate, so, too, was the recession: It left the city almost unscathed.

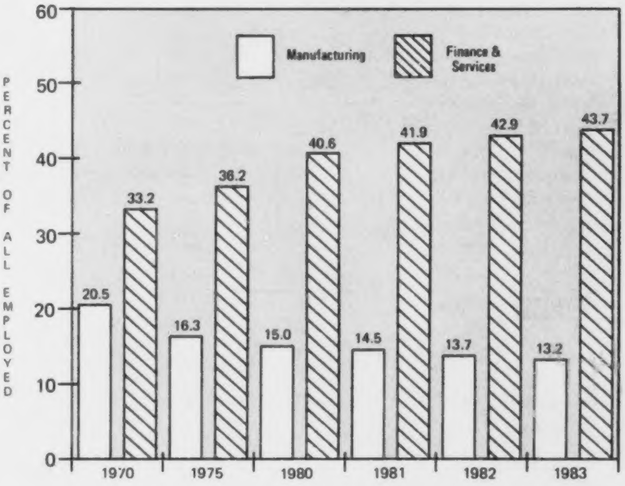
After a slow start in early 1983, the New York City economy moved toward recovery during the latter part of the year. Total employment began to rise, purchasing power of workers improved as the rate of inflation diminished, retail sales surged and the jobless rate declined from 9.1 percent in December, 1982 to 7.8 percent one year later. Another positive sign comes from the Comptroller's office. It has just reported that tax revenues in the first five months of fiscal 1984 (which began last July 1) were running $302 million higher than tax collections in the comparable period of fiscal 1983. Such cyclically-sensitive taxes as sales, personal income and corporate, increased at a 14 percent annual rate during the period, three percentage points higher than the Comptroller projected—not to mention far better than the rise in Federal receipts.

New York's recent experience is in sharp contrast with the painful fiscal crisis it encountered in the mid-1970s. At that time, total employment declined at a rate of about 64,000 jobs a year, population fled to the suburbs and many businesses relocated their headquarters to areas where land, construction costs and tax rates were more attractive. New York was viewed as too big and too old to accommodate the demands of modern society and business. The unemployment rate surged to 11.2 percent in 1975—a trend which was not reversed even by the strong national recovery which followed the 1973-75 recession.

. . . For An Economic Expansion . . .

By 1977, the city's economy began to turn around in the areas where it had a competitive advantage. Some of the same factors that contributed to New York's economic problems began to be viewed as unique economic advantages. For example, the suburbs which had drained some of the city's population, became a huge marketplace within a radius of 60 miles—inhabited by 20 million people with a total buying power of some $150 billion a year.

CHANGES IN EMPLOYMENT COMPOSITION
IN NEW YORK CITY



Indeed, fueled by the growth of the banking, securities and insurance industries, the city's economic resurgence began in earnest in the late 1970s. Since 1977, the finance, insurance and real estate sector alone added more than 80,000 jobs—an increase of 19.4 percent. Today, this sector employs more people than all of the city's manufacturing industries. One in every seven jobs in New York City is now derived from these activities, in sharp contrast with the one in 18 employed in them nationally.

So, too, New York has become an important international finance and trade center. According to a survey study by New York University Graduate

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School of Business Administration, an estimated 266,000 jobs are now directly or indirectly related to foreign firms operating in New York City. These provide employment for more than eight percent of the city's total work force. Almost 200 foreign banks now have offices or branches in the city, as do a number of U.S. banks whose headquarters are in other states.

. . . Especially In Services

Put simply, the city's transition from a manufacturing to a service-oriented economy has been dramatic—and timely. Manufacturing now accounts for only 13 percent of all jobs while finance and service positions represent almost one-half of the city's employment (see chart on page 1). Although the United States reports a similar pattern, the shift from manufacturing to a service-based economy nationwide has been much more subdued. Manufacturing employment, for example, decreased nationally from 24 percent in 1975 to 21 percent in 1983, while those associated with finance, insurance and real estate and other services increased from 23 percent to 28 percent in the same period.

It should be pointed out that with almost half a million factory jobs at the end of last year, New York City is still the third largest center of manu-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/11/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	162.358	− .117	+17.539
Loans to Depository Inst.	.563	− .734	+ .138
Float	1.994	− .113	− .924
Total Reserve Bank Credit	173.547	− 1.292	+15.589
Treasury Deposits with			
Federal Reserve Banks	3.458	+ .022	+ .543
Currency Outside Banks	150.777	− 1.558	+14.143
Member Bank Reserves:			
Required	38.990	− .189	− 2.000
Excess (Deficiency)	.701	− .238	+ .410
Total Reserves Held	39.691	− .427	− 1.590
Net Free Reserves	.209	+ .489	− .179
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	112.389	− 1.797	+ 6.192

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	526.1	+ 3.6‡	+ 9.1‡
M2 (December '83)	2,184.7	+ 7.3	+ 11.5
M3 (December '83)	2,599.7	+ 8.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/20/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.90%	8.90%	9.05%
*** Federal Agencies**	8.85	9.30	9.80
*** Project Notes—Taxfree (46% Taxable Equivalent)**	9.63	9.72	10.19
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	9.42	9.55	10.05

‡Finance Company Paper—Prime	
5- 14 days	9.25%
15- 29 days	9.25
30- 59 days	9.25
60- 89 days	9.20
90-179 days	9.13
180-239 days	8.80
240-270 days	8.80

‡* Bankers' Acceptances	
Feb.	9.25%
Mar.	9.25
Apr.	9.25
May	9.25
Jun.	9.25
Jul.	9.20

‡Industrial Paper—Prime	
30- 89 days	9.20%
90-120 days	9.15

†Federal Funds	
Effective Rate	9.45%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83n	$ 3,432	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83n	$ 1,571	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83n	4.5	7.6	− 1.3
Change in Consumer Prices (new series)*	Nov '83	3.6%	4.8%	0.0%
Change in Producer Prices*	Dec '83	2.4%	− 2.4%	3.6%
Civilian Employment (Thousands of Persons)†	Dec '83	102,941	102,606	98,979
Unemployment as % of Civilian Labor Force†	Dec '83	8.2%	8.4%	10.7%
Personal Income*	Dec '83n	$ 2,857	$ 2,833r	$ 2,645
Leading Indicators Composite Index (1967=100)†	Nov '83	161.8	162.4	139.4
Industrial Production Index (1967=100) †	Dec '83	156.9	156.1	135.2
Net Change in Consumer Installment Credit †	Nov '83	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance †	Nov '83	−$ 7.40	−$ 8.97	−$ 3.89
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Dec '83n	1,667	1,755r	1,280
New Construction Expenditures*	Nov '83	$ 271.9	$ 271.9	$ 243.7
Total Business Inventories †	Nov '83n	$ 518.0	$ 516.0r	$ 513.9
Total Business Sales †	Nov '83n	$ 387.2	$ 382.2r	$ 338.7

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

facturing in the nation—and a source of employment to both skilled and unskilled workers. It trails only Los Angeles-Long Beach and Chicago. Such manufacturing cities as Detroit, by contrast, employ less than 440,000 factory workers.

Nondurable goods manufacturing provides four out of five manufacturing jobs in New York. The apparel industry—the city's largest manufacturing employer—employs nearly four out of every ten workers in softgoods manufacturing, while printing and publishing—the next largest manufacturing industry—employs one out of every four nondurable manufacturing workers.

Although the borough of Manhattan benefited substantially from the shifting composition of New York City's economy, emerging as a national and international center of business and finance, it still remains an important center of New York City's manufacturing employment. More than half of all manufacturing jobs are located in Manhattan. The borough of Brooklyn—the second largest manufacturing industry center in the city—provides only one out of five of the city's factory jobs. This suggests that, despite the increasing importance of the service sector, millions of New York City residents will continue to have an important stake in the health of industrial America.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's **Weekly Reporting Banks**			
Nationwide (12/28/83)*	91,746	+ 1,824	–40,843
New York City (12/28/83)*	19,001	+ 480	–16,611
Commercial Paper (1/4/84)	184,018	+ 1,078	+18,470

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/28/83)*	221,670	+ 2,012	+ 4,250
New York City (12/28/83)*	58,793	+ 825	– 1,957

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/28/83)*	532,756	+ 2,743	+24,316
New York City (12/28/83)*	122,148	– 330	+ 2,663

*Due to changes in reporting procedures the Federal Reserve has delayed the release of the January 4, 1984 data.

Financial Markets

	Friday 1/20/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.25%	+ .20	+ 1.50
180-Day Bills†	9.60	+ .23	+ 1.65
Longest Bills†	9.92	+ .25	+ 1.67
Recent Issues:			
$10\frac{7}{8}$s 12/31/85	10.58	+ .13	
$11\frac{1}{4}$s 12/31/87	11.13	+ .08	
$11\frac{3}{4}$s 11/15/93	11.63	+ .08	
12s 8/15/13	11.70	+ .05	
Municipals:			
Bond Buyer–20 Bond Index* (1/19/84)	9.60%	– .07	+ .23
Blue List Total ($ Million)	$1,150	+ $ 6	+ $193
30-Day Visible Supply ($ Million)	$1,828	– $628	+ $202
Total	$2,978	– $622	+ $395
Corporates:			
Moody's Aa Composite (1/19/84)	12.72%	+ .01	+ .45
30-Day Visible Supply ($ Million)	$ 984	+ $384	+ $704
Stocks:			
Dow-Jones Averages:			
Industrials	1,259.11	– 10.99	+ 178.26
Transportation	596.45	– 6.51	+ 128.77
Utilities	130.39	– 3.91	+ 5.76
65 Stocks	501.68	– 6.08	+ 77.34
Standard and Poor's 500 Stocks	166.21	– .81	+ 19.56
N.Y.S.E. Composite Index	96.12	– .54	+ 11.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,346	– 6,098	+ 2,534

* 46% Taxable equivalent 17.78%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/20/84	Week Ago
Overnight	9.38%	9.25%
1 month	9.50	9.56
3 month	9.69	9.75
6 month	9.88	9.88
1 year	10.19	10.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.50%
Long Term (7 to 15 yrs.)	11.65	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/20/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01753	57.05
Canada	.8033	1.2448
Denmark	.09877	10.1250
France	.1169	8.5515
Germany	.3579	2.7938
Italy	.0005869	1703.80
Japan	.004282	233.55
Mexico	.006070	164.75
Netherlands	.3184	3.1405
Switzerland	.4495	2.2245
U.K.	1.4180	.7052

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 30, 1984
VOLUME XXI, NUMBER 4

What Goes Up . . .

The belief both in the U.S. and abroad that the dollar will remain strong through most of 1984 has intensified concern over the domestic and international impacts of a persistently overvalued U.S. currency. Some of these concerns center on the growing difficulty U.S. businesses have in competing in world markets—even in those areas of traditional U.S. dominance. Others are investment-related problems involving surging capital inflows seeking the benefits of very high real interest rates and the security of dollar-denominated assets.

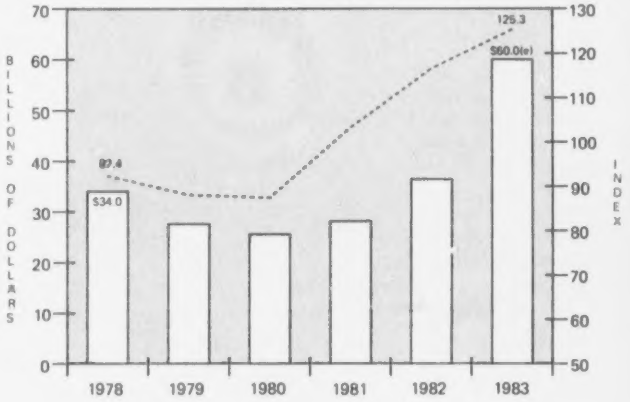
The conditions that caused the dollar to appreciate against the rest of the world's currencies since the end of 1980 are likely to continue for a while longer. Most significant has been the markedly successful reduction in the U.S. inflation rate in the last three years. The rate of rise in U.S. consumer prices has slowed from 13.5 percent in calendar year 1980 to 3.2 percent by 1983, a level comparable to those found in Switzerland and Germany—the countries with the best records in controlling inflation in the postwar period. As a result, the dollar has regained the confidence that foreign investors had in it in the 1950s and 1960s—as they had in the Swiss franc and the German mark in the 1970s, when these currencies were the world's strongest.

Further, since late 1980, U.S. real interest rates have been substantially higher than in the other major industrial countries, including Japan, Germany, Switzerland and the United Kingdom—whose currencies could potentially compete with the dollar as investment repositories. As a consequence of those high real interest rates and in conjunction with growing confidence in U.S. monetary management, world capital flows in the last three years have favored dollar-denominated assets at the expense of assets denominated in competing foreign currencies.

. . . May Stay Up Awhile . . .

It does not appear that the dollar-boosting impact of each of the above factors will soon wane. There are several reasons why U.S. interest rates may continue to exceed the interest yields realized on competing foreign currency investments. First, the U.S. budget deficit is expected to remain high for several more years. Second, the U.S. economy will grow this year at a faster rate than in European countries. Finally, U.S. monetary policy will be at least as firm as in other major industrial countries. Thus, the supply and demand balance for funds in the U.S. will likely be tighter than in the other countries. As a result of the above influences, the dollar has become overvalued. Based on exchange rate and inflation rate changes since 1971, the dollar's overvaluation relative to the currencies of our major trading partners is estimated at around 25 percent.

U.S. MERCHANDISE TRADE DEFICIT (B.O.P. BASIS) <BAR> VS. TRADE WEIGHTED DOLLAR INDEX, MARCH 1973=100 <DOT>



With foreign goods cheaper in dollar terms and U.S. exports more expensive in foreign currency terms, the ability of U.S. producers to compete in international markets has weakened considerably in the past few years. As a result of the dollar's overvaluation, as well as the 1981-82 global recession and the faster economic recovery in the U.S. than in other countries in 1983, U.S. merchandise exports declined by ten percent from $224.2 billion in 1980, when the dollar first started to appreciate strongly, to about $201 billion in 1983. Over the same period, U.S. imports rose from $249.8 billion to an estimated $261 billion, a 4.5

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percent increase. Consequently, the U.S. merchandise trade deficit more than doubled from a low of $25.5 billion in 1980 to an estimated $60 billion in 1983 (see chart on page 1). In 1984, the deficit may increase further to $100 billion.

The deterioration in the U.S. trade position is apparent in most export sectors. Our trade balance on machinery, for example, from which the U.S. has usually garnered a strong surplus appears to have shrunk by almost two thirds from $23.9 billion in 1980 to $8.5 billion in 1983. And agricultural exports, which also usually generate a sizable surplus, may have fallen by as much as 25 percent over the same period, largely because foreign grain supplies are abundant and cheaper.

The dollar's overvaluation creates problems in the capital markets as well. Capital flows in pursuit of high interest rates are notoriously unstable. Surging inflows of capital can quickly become surging outflows, creating rapid and violent fluctuations in the foreign exchange markets. Such reversals in the past have tended to overshoot, converting an overvalued currency to an undervalued one.

The overvaluation of the dollar results from strong foreign demand for U.S. financial and real assets,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/18/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	160.457	– 1.901	+15.016
Loans to Depository Inst.	.784	+ .221	+ .319
Float	1.324	– .605	– .619
Total Reserve Bank Credit	171.267	– 2.215	+13.104
Treasury Deposits with Federal Reserve Banks	3.118	– .340	+ .003
Currency Outside Banks	147.572	– 3.205	+12.778
Member Bank Reserves:			
Required	40.559	+ 1.569	– 1.938
Excess (Deficiency)	.544	– .092	– .077
Total Reserves Held	41.103	+ 1.477	– 2.015
Net Borrowed Reserves	.157	+ .301	+ .456
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.119	– .270	+ 1.904

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	523.6	+ 4.0‡	+ 9.0‡
M2 (December '83)	2,184.7	+ 7.3	+ 11.5
M3 (December '83)	2,599.8	+ 8.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 1/27/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.90%	8.95%	9.00%
* Federal Agencies	9.00	9.35	9.80
* Project Notes–Taxfree (46% Taxable Equivalent)	9.35	9.54	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.35	9.48	10.00

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.15%	Feb.	9.20%
15- 29 days	9.15	Mar.	9.20
30- 59 days	9.20	Apr.	9.20
60- 89 days	9.20	May	9.20
90-179 days	9.15	Jun.	9.20
180-239 days	8.80	Jul.	9.20
240-270 days	8.80		

‡Industrial Paper–Prime			
30- 89 days	9.15%	†Federal Funds Effective Rate	9.30%
90-120 days	9.15		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,432	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,571	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.5	7.6	– 1.3
Change in Consumer Prices (new series)*	Dec '83n	3.6%	3.6%	– 3.6%
Change in Producer Prices*	Dec '83	2.4%	– 2.4%	3.6%
Civilian Employment (Thousands of Persons) †	Dec '83	102,941	102,606	98,979
Unemployment as % of Civilian Labor Force†	Dec '83	8.2%	8.4%	10.7%
Personal Income*	Dec '83	$ 2,857	$ 2,833	$ 2,645
Leading Indicators Composite Index (1967=100)†	Nov '83	161.8	162.4	139.4
Industrial Production Index (1967=100) †	Dec '83	156.9	156.1	135.2
Net Change in Consumer Installment Credit †	Nov '83	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance †	Dec '83n	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Dec '83	1,667	1,755	1,280
New Construction Expenditures*	Nov '83	$ 271.9	$ 271.9	$ 243.7
Total Business Inventories †	Nov '83	$ 518.0	$ 516.0	$ 513.9
Total Business Sales †	Nov '83	$ 387.2	$ 382.2	$ 338.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

causing them to be bought and sold at prices that may be unrelated to their fundamental value. Such price distortions encourage speculation and discourage sound investment. Further, the high interest rates which have created the huge demand for dollars have tended to strip foreign capital markets of investment funds, forcing up interest rates abroad in a competitive effort to retain these funds for domestic needs and to prevent further deterioration of their currencies against the dollar.

. . . But Not Forever

However, the dollar will not remain overvalued indefinitely. The loss of U.S. jobs and the consequent erosion of demand resulting from falling exports and skyrocketing imports will continue to brake economic growth, reducing the attractiveness of dollar assets. What is more, the rising current account deficit (estimated at over $40 billion in 1983 and perhaps $75 billion in 1984) represents a huge net increase in U.S. obligations abroad. Finally, the growing U.S. trade deficit will stimulate foreign economic growth, increasing the attractiveness of financial assets abroad. Before the end of this year, these trade and investment-related factors may well become sufficiently important to reverse the dollar's upward trend.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/11/84)	146,769	– 615	–34,555
New York City (1/11/84)	30,779	– 6	–13,909
Commercial Paper (1/11/84)	183,940	– 82	+18,657

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/11/84)	221,484	– 2,640	NA*
New York City (1/11/84)	58,204	– 1,080	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/11/84)	572,449	– 5,291	NA*
New York City (1/11/84)	129,133	– 2,140	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 1/27/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.25%	–0–	+ .98
180-Day Bills†	9.60	–0–	+ 1.08
Longest Bills†	9.83	– 09	+ 1.01
Recent Issues:			
$10\frac{5}{8}$s 1/31/86 (When Issued)	10.60	NA	
$11\frac{1}{4}$s 12/31/87	11.10	– .03	
$11\frac{3}{4}$s 11/15/93	11.60	– .03	
12s 8/15/13	11.70	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (1/26/84)	9.59%	– .01	– .07
Blue List Total ($ Million)	$1,276	+ $126	+ $187
30-Day Visible Supply ($ Million)	$1,317	– $511	– $482
Total	$2,593	– $385	– $295
Corporates:			
Moody's Aa Composite (1/26/84)	12.69%	– .03	+ .21
30-Day Visible Supply ($ Million)	$ 934	– $ 50	+ $294
Stocks:			
Dow-Jones Averages:			
Industrials	1,230.00	– 29.11	+ 165.25
Transportation	567.15	– 29.30	+ 106.78
Utilities	132.66	+ 2.27	+ 9.04
65 Stocks	488.73	– 12.95	+ 70.42
Standard and Poor's 500 Stocks	163.94	– 2.27	+ 19.43
N.Y.S.E. Composite Index	94.76	– 1.36	+ 11.41
N.Y.S.E. Avg. Daily Vol. for Week (000's)	102,718	+ 5,372	+ 18,192

* 46% Taxable equivalent 17.76%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/27/84	Week Ago
Overnight	9.38%	9.38%
1 month	9.56	9.50
3 month	9.69	9.69
6 month	9.88	9.88
1 year	10.25	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.45%
Long Term (7 to 15 yrs.)	11.65	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/27/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01742	57.40
Canada	.8022	1.2466
Denmark	.09791	10.2130
France	.1162	8.6080
Germany	.3554	2.8135
Italy	.0005834	1714.00
Japan	.004272	234.06
Mexico	.006042	165.50
Netherlands	.3158	3.1670
Switzerland	.4461	2.2415
U.K.	1.4052	.7116

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, FEBRUARY 6, 1984 VOLUME XXI, NUMBER 5

Monetary Policy . . .

With the business recovery now settling into a slower, albeit more sustainable pace and few, if any, signs on the horizon of an imminent reacceleration in the rate of inflation, last week's meeting of the Federal Reserve's policy-setting Federal Open Market Committee confronted few imperatives for altering monetary policy. Rather, unfolding business and financial developments suggest the need for quite the opposite: Keeping monetary policy in a holding pattern until such time as it does seem that the recovery is faltering or inflation expectations are reviving.

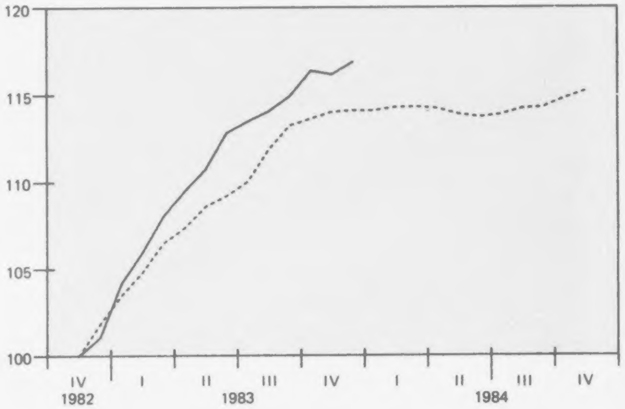
Indeed, Fed Chairman Paul A. Volcker's testimony before Congress this week is expected to contain few surprises for the financial markets. He will undoubtedly re-emphasize the need to curb Washington's ongoing financial profligacy, a task underscored by the just-released fiscal 1985 budget, and will probably reaffirm the tentative 1984 money supply growth targets set last summer. However, while monetary policy will hold steady for now, prospects are brightening that a tilt toward accommodation will occur soon, in part to give today's business expansion a modest fillip, and in part a response to the vocal chorus of critics concerned about the flattening of M1 money growth which took place in the latter part of 1983.

One area of encouragement for the Fed, not to mention the credit markets, has been the recent deceleration in business activity. Retail sales, production and capacity utilization data all point toward a slowing of the growth momentum, typical of a business recovery early in its second year. What is more, the subdued 0.6 percent month-over-month rise in the December index of leading economic indicators suggests that a further moderation in the pace of business activity is likely in the months ahead. Again, however, this is not unusual; as shown in the chart, this index usually begins to flatten out at about this stage of the business cycle.

. . . Will Remain In A Holding Pattern . . .

On the other hand, one thing that is not about to flatten is Washington's credit appetite. Quite the contrary. Whereas Treasury borrowings usually began to taper off at this stage of past recoveries as tax receipts swelled and counter-cyclical outlays diminished, the usual post-recession dip in Federal credit needs will not take place this time around. This is because the Administration now expects on-budget deficit totals in excess of $180 billion in this fiscal year and fiscal 1985 (on the heels of a $195 billion red ink total in fiscal 1983), virtually ensuring that Washington will continue to absorb a cyclically abnormal proportion of funds raised in the credit markets. In the past, Treasury borrowings would usually slip to an average of less than $1 for every $10 raised in the debt markets by the second year of recovery; in the current fiscal year, $1 in every $3 raised is expected to go to the Treasury—not far from the the fiscal 1983 proportion of just about 37½ percent.

INDEX OF LEADING INDICATORS:
CURRENT RECOVERY (LINE)
VS. AVERAGE OF PRIOR 7 RECOVERIES (DOT)
<TROUGH=100>



Thus, public and private borrowings may well collide later this year once corporate America returns in force to the credit markets. But with business cash flow still rebounding sharply, such a clash is unlikely to occur soon. However, this does not mean it never will, and this is precisely why the flexibility of monetary policy remains hamstrung by

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the persistence of these 12-digit budget deficits. To ease the monetary reins now would run the risk of ultimately more inflation and higher, not lower interest rates; with a robust, noninflationary recovery underway, the Fed will remain reluctant to alter policy significantly.

This is why Chairman Volcker will probably stress the need for substantive deficit reductions before monetary policy can turn overtly accommodative and interest rates descend from their lofty levels. For the money supply in 1984, this means that the money growth targets set last summer will most likely be reaffirmed. These targets, together with a somewhat more rapid turnover rate, should be sufficient to keep the recovery on track, on the one hand, but not so overly generous that they would reignite inflation expectations, on the other. And, since all the money supply measures are currently expanding within their current target boundaries, few modifications of existing policy appear necessary.

. . . At least A While Longer

So, too, another reason for holding policy steady is the heightened uncertainty, and potential for increased interest rate volatility, surrounding the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/25/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.957	– .500	+16.974
Loans to Depository Inst.	.505	– .279	+ .180
Float	1.495	+ .105	– 1.099
Total Reserve Bank Credit	170.825	– .508	+14.840
Treasury Deposits with Federal Reserve Banks	5.252	+ 2.134	+ 1.343
Currency Outside Banks	146.117	– 1.455	+12.622
Member Bank Reserves:			
Required	39.672	– .887	– 1.350
Excess (Deficiency)	.636	+ .026	+ .135
Total Reserves Held	40.308	– .861	– 1.215
Net Free Reserves	.233	+ .324	– .174
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.733	– .386	+ .371
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	521.8	+ 4.1‡	+ 8.8‡
M2 (December '83)	2,184.6	+ 7.3	+ 11.5
M3 (December '83)	2,599.8	+ 8.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 2/3/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.65%	8.70%	8.75%
* Federal Agencies	8.70	9.00	9.35
* Project Notes—Taxfree (46% Taxable Equivalent)	9.07	9.26	10.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.33	9.43	9.85

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.30%	Mar.	9.18%
15- 29 days	9.30	Apr.	9.18
30- 59 days	9.30	May	9.18
60- 89 days	9.15	Jun.	9.18
90-179 days	9.05	Jul.	9.18
180-239 days	8.80	Aug.	9.15
240-270 days	8.80		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	9.20%	Effective Rate	9.50%
90-120 days	9.15		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,432	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,571	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.5	7.6	– 1.3
Change in Consumer Prices (new series)*	Dec '83	3.6%	3.6%	– 3.6%
Change in Producer Prices*	Dec '83	2.4%	– 2.4%	3.6%
Civilian Employment (Thousands of Persons) †	Jan '84n	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force †	Jan '84n	8.0%	8.2%	10.4%
Personal Income*	Dec '83	$ 2,857	$ 2,833	$ 2,645
Leading Indicators Composite Index (1967=100) †	Dec '83n	162.9	161.9r	140.9
Industrial Production Index (1967=100) †	Dec '83	156.9	156.1	135.2
Net Change in Consumer Installment Credit †	Nov '83	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Dec '83	1,667	1,755	1,280
New Construction Expenditures*	Dec '83n	$ 275.0	$ 275.5r	$ 240.2
Total Business Inventories †	Nov '83	$ 518.0	$ 516.0	$ 513.9
Total Business Sales †	Nov '83	$ 387.2	$ 382.2	$ 338.7

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

switch from lagged reserve accounting to contemporaneous reserve requirements. Under the former procedure, even when banks knew precisely their required reserve needs at the beginning of each statement week, and the Fed was aware of the entire system's needs, there was still substantial volatility in the Federal funds market. Under the new procedures, neither holds true, and the shake-down period may be a long one. In coming months, shifts in net borrowed and excess reserves may well reflect more the difficulties that the banks may encounter in estimating accurately their reserve needs (not to mention the Fed's in estimating systemwide needs), rather than any changes in the thrust of Fed policy.

While Fed policy should hold steady until further evidence accumulates that economic growth is slowing, this may be sooner than is generally thought. Unless consumer spending suddenly strengthens, capital spending, hobbled by today's lofty pattern of interest rates, and soggy exports suggest that the next move by the central bank will be toward ease. And since it will occur behind the smokescreen of the switch in reserve accounting, the central bank's inflation-fighting credibility will be maintained. All in all, look for another deft Fed move soon which will keep the recovery solidly on track and inflation expectations derailed.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/18/84)	143,580	– 3,192	–30,337
New York City (1/18/84)	29,242	– 1,537	–14,095
Commercial Paper (1/18/84)	185,097	+ 1,157	+18,823

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/18/84)	221,165	– 208	NA*
New York City (1/18/84)	58,051	– 152	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/18/84)	571,558	– 771	NA*
New York City (1/18/84)	129,094	– 38	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 2/3/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.97%	– .28	+ .44
180-Day Bills†	9.24	– .36	+ .42
Longest Bills	9.51	– .32	+ .41
Recent Issues:			
$10\frac{5}{8}$s 1/31/86	10.55	+ .05	
$11\frac{1}{4}$s 12/31/87	11.10	–0–	
$11\frac{3}{4}$s 11/15/93	11.60	–0–	
12s 8/15/13	11.70	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (2/2/84)	9.51%	– .08	– .23
Blue List Total ($ Million)	$1,291	+ $ 15	+ $456
30-Day Visible Supply ($ Million)	$1,695	+ $378	– $231
Total	$2,986	+ $393	+ $225
Corporates:			
Moody's Aa Composite (2/2/84)	12.62%	– .07	– .03
30-Day Visible Supply ($ Million)	$ 812	– $122	+ $262
Stocks:			
Dow-Jones Averages:			
Industrials	1,197.03	– 32.97	+ 119.12
Transportation	535.37	– 31.78	+ 50.30
Utilities	131.89	– .77	+ 6.84
65 Stocks	472.75	– 15.98	+ 44.32
Standard and Poor's 500 Stocks	160.82	– 3.12	+ 14.68
N.Y.S.E. Composite Index	92.98	– 1.78	+ 8.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	108,982	+ 6,264	+ 30,322

* 46% Taxable equivalent 17.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/3/84	Week Ago
Overnight	9.63%	9.38%
1 month	9.63	9.56
3 month	9.75	9.69
6 month	9.94	9.88
1 year	10.31	10.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.45%
Long Term (7 to 15 yrs.)	11.60	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/3/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01776	56.31
Canada	.8025	1.2461
Denmark	.10048	9.9525
France	.1184	8.4475
Germany	.3637	2.7495
Italy	.0005921	1689.00
Japan	.004289	233.15
Mexico	.006024	166.00
Netherlands	.3222	3.1033
Switzerland	.4524	2.2105
U.K.	1.4248	.7019

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
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and Business Indicators

MONDAY, FEBRUARY 13, 1984
VOLUME XXI, NUMBER 6

A Brighter Employment Picture . . .

With the release of the fiscal year 1985 Federal budget and the Congressional testimony of Federal Reserve Chairman Paul A. Volcker, the financial markets were hit by a one-two punch from which they are still attempting to recover. Once again, concern is mounting that the fundamental incompatibility of huge budget deficits and an inflation-fighting monetary policy will soon be sending interest rates higher—prospects sufficiently bleak to send the stock market into a tailspin and sow disarray in the bond markets. However, moving away from Wall Street to Main Street, some of the news would appear to be brighter.

Perhaps the brightest is the fact that the rapid pace of the current U.S. business recovery has led to a significant improvement in the employment situation. A 13-month hiring spree has added 4.2 million jobs and reduced the civilian unemployment rate by 2.7 percentage points from its postwar high of 10.7 percent recorded in December, 1982. At eight percent in January, the jobless rate now stands at its lowest level since October, 1981.

Never before have so many people been working in the U.S. What is more, the employment rate—the proportion of working-age population whose labor is being utilized—is almost two percentage points above its postwar average. This call back to work has fattened the wallets and boosted the morale of many people. The wages and salary component of personal income increased 8.3 percent in the 12 months ending December, 1983, compared with an increase of just four percent a year earlier, while consumers' confidence in January soared to the highest level in five years.

The 2.7 percentage-point plunge in the jobless rate since the end of the last recession is the second sharpest reduction in the unemployment rate for any comparable period of a business expansion in postwar history. It resulted from the combination of a strong increase in civilian employment and unusually sluggish growth in the number of entrants into the labor force. Civilian employment has increased 4.2 percent since the end of the last recession compared with an average increase of three percent in the same period following the seven previous postwar recessions.

However, not all of the reduction in the jobless rate can be attributed to increased employment alone. It can also be traced to the unusually slow growth in the labor force. Defined as people who hold jobs and those who don't but would like to, the labor force grew 1.2 percent in 1983—the slowest annual rate of increase in two decades. This contrasts sharply with the 2.7 percent average annual rate of growth in the labor force in the 1970s, when the postwar baby-boom generation reached working age and entered the labor force at the same time that a growing number of women sought work outside their homes.

The restrained growth of the labor force in 1983 reflected primarily changes in the demographic structure of the American population. The proportion of young people reaching working age declined, while female labor-force participation slowed because many women now in their thirties, who had postponed childbearing to develop careers, decided to have families.

But there was another factor that affected growth in the labor force in 1983: A record number of unemployed workers gave up looking for jobs. Usually, discouraged workers who stop looking for employment during economic downturns, re-enter the labor force in hopes of finding jobs when business conditions improve. Their re-entry to the labor force tends to inhibit the decline in the unemployment rate in the early stages of economic recovery. By the end of 1983, however, the number of discouraged workers edged down by only 356,000 from the over 1.8 million posted at the depth of the last recession.

. . . Benefits Many Industries . . .

Two interest rate-sensitive sectors—durable goods manufacturing and construction—which were particularly hard-hit during the recession, have been big job gainers during the recovery. The construction sector expanded its work force by

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almost 12 percent, while employment in manufacturing rebounded 6.5 percent from its recession low. Not only has this gain reversed the largest decline in manufacturing employment in the postwar period, but it also contributed 37 percent to the total gain in payroll employment since the recovery began. The auto industry increased employment on its assembly lines by 26 percent. Such industries associated with autos and construction as rubber, lumber, wood and furniture have also posted substantial gains. Needless to say, employment in the service-producing sector, which posted gains even throughout the recession, continued to expand.

These statistics, however, do not reveal many of the problems still besetting Smokestack America. Factories have restored only 1.2 million of the three million jobs lost since 1979 when their payrolls peaked. Plant shutdowns in hard-hit industries have permanently displaced many workers. In addition, many factory jobs have disappeared with the introduction of such labor-saving technology as computerized operations, electronic controls and robotics. The auto industry, for example, employs today only about three quarters of its former work force, while the primary metals sector has pared its payrolls by one third. Although as recently as 1979, manufacturing generated more

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/1/84	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	160.550	+ .593	+19.044
Loans to Depository Inst.	.677	+ .172	+ .294
Float	.817	– .622	– 1.327
Total Reserve Bank Credit	171.103	+ .334	+17.323
Treasury Deposits with Federal Reserve Banks	7.180	+ 1.928	+ 4.749
Currency Outside Banks	145.789	– .328	+12.403
Member Bank Reserves:			
Required	38.858	– .814	– 1.626
Excess (Deficiency)	.432	– .148	+ .011
Total Reserves Held	39.290	– .962	– 1.615
Net Borrowed Reserves	.133	+ .310	+ .419
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.407	+ .674	+ .219

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	524.6	+ 4.8‡	+ 8.4‡
M2 (January '84)	2,191.9	+ 5.6	+ 9.0
M3 (January '84)	2,614.5	+ 8.0	+ 8.8
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 2/10/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.00%	9.05%	9.05%
* Federal Agencies	9.20	9.40	9.80
* Project Notes—Taxfree (46% Taxable Equivalent)	9.17	9.44	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.45	9.65	10.00

‡ Finance Company Paper—Prime	
5- 14 days	9.25%
15- 29 days	9.35
30- 59 days	9.35
60- 89 days	9.30
90-179 days	9.20
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Mar.	9.30%
Apr.	9.30
May	9.30
Jun.	9.30
Jul.	9.30
Aug.	9.27

‡ Industrial Paper—Prime	
30- 89 days	9.30%
90-120 days	9.25

† Federal Funds Effective Rate 9.45%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,432	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,571	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.5	7.6	– 1.3
Change in Consumer Prices (new series)*	Dec '83	3.6%	3.6%	– 3.6%
Change in Producer Prices*	Jan '84n	7.2%	2.4%	– 13.2%
Civilian Employment (Thousands of Persons) †	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force †	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Dec '83	$ 2,857	$ 2,833	$ 2,645
Leading Indicators Composite Index (1967=100) †	Dec '83	162.9	161.9	140.9
Industrial Production Index (1967=100) †	Dec '83	156.9	156.1	135.2
Net Change in Consumer Installment Credit †	Nov '83	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Dec '83	1,667	1,755	1,280
New Construction Expenditures*	Dec '83	$ 275.0	$ 275.5	$ 240.2
Total Business Inventories †	Nov '83	$ 518.0	$ 516.0	$ 513.9
Total Business Sales †	Nov '83	$ 387.2	$ 382.2	$ 338.7

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

jobs than any other sector of the U.S. economy, today such industries as services or trade employ more people than factories.

. . . But Problems Still Persist

Industries as diverse as health services and security and commodities brokers have posted healthy gains in recent years. The disparity between the growth of employment in manufacturing and services shows up in industry unemployment rates as well. For example, whereas the primary metals and food processing industries have jobless rates of 13.7 and 13.6 percent respectively, communications and utilities have only 2.4 percent of their work force unemployed, and the financial sector, 4.2 percent.

Although total employment is at a record level, nine million Americans still remain unemployed. In addition, 1.5 million persons have given up looking for employment because they do not believe that opportunities for finding suitable jobs exist. To be sure, the progress against unemployment has been substantial, but America still has a long way to go. After all, just a few years ago an eight percent unemployment rate was a cause for concern—not a reason to rejoice.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/25/84)	142,903	– 636	–29,880
New York City (1/25/84)	28,617	– 625	–14,464
Commercial Paper (1/25/84)	185,844	+ 554	+19,279

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/25/84)	220,257	– 775	NA*
New York City (1/25/84)	57,825	– 226	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (1/25/84)	569,679	– 1,800	NA*
New York City (1/25/84)	127,835	– 1,107	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 2/10/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.40%	+ .43	+ 1.02
180-Day Bills†	9.72	+ .48	+ 1.05
Longest Bills†	9.90	+ .39	+ .90
Recent Issues:			
$10\frac{5}{8}$s 1/31/86	10.71	+ .16	
$11\frac{1}{4}$s 12/31/87	11.28	+ .18	
$11\frac{3}{4}$s 11/15/93	11.80	+ .20	
12s 8/15/13	11.90	+ .20	
Municipals:			
Bond Buyer–20 Bond Index* (2/9/84)	9.56%	+ .05	– .16
Blue List Total ($ Million)	$1,496	+ $205	+ $509
30-Day Visible Supply ($ Million)	$2,294	+ $599	+ $171
Total	$3,790	+ $804	+ $680
Corporates:			
Moody's Aa Composite (2/9/84)	12.58%	– .04	– .11
30-Day Visible Supply ($ Million)	$1,037	+ $225	+ $627
Stocks:			
Dow-Jones Averages:			
Industrials	1,160.70	– 36.33	+ 72.95
Transportation	514.55	– 20.82	+ 34.80
Utilities	127.17	– 4.72	+ 3.28
65 Stocks	456.91	– 15.84	+ 28.17
Standard and Poor's 500 Stocks	156.30	– 4.52	+ 8.80
N.Y.S.E. Composite Index	90.07	– 2.91	+ 4.97
N.Y.S.E. Avg. Daily Vol. for Week (000's)	106,924	– 2,058	+ 21,764

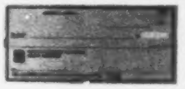
* 46% Taxable equivalent 17.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/10/84	Week Ago
Overnight	9.44%	9.63%
1 month	9.69	9.63
3 month	9.81	9.75
6 month	9.94	9.94
1 year	10.31	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.40%
Long Term (7 to 15 yrs.)	11.70	11.60

FOREIGN EXCHANGE SPOT RATES **New York Opening (2/10/84)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01778	56.25
Canada	.8021	1.2467
Denmark	.09990	10.0100
France	.1183	8.4515
Germany	.3641	2.7468
Italy	.0005915	1690.50
Japan	.004267	234.35
Mexico	.005988	167.00
Netherlands	.3229	3.0970
Switzerland	.4481	2.2315
U.K.	1.4150	.7067



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, FEBRUARY 17, 1984
VOLUME XXI, NUMBER 7

Energy Use Is Rising . . .

Spurred by the robust business recovery and lower prices, U.S. consumers and industry alike have revived their appetites for petroleum. Following five years of nonstop decline, U.S. oil demand rose 3.7 percent during the past ten months, compared with year-earlier levels. But despite this turnaround in consumption, imminent price increases are unlikely. Although prices of some products shot up earlier this year in response to the extremely cold weather, the longer-term fundamentals which prevailed over the past year have not changed much. World supplies remain plentiful, while demand—hampered by hesitant recoveries overseas and high oil prices—should stay about flat.

To be sure, oil consumption in the United States is expected to rise slightly this year. However, the increase should be at a somewhat slower rate than that posted in the second half of 1983. This is because the heady business expansion registered in the last three quarters of 1983 is likely to slow, although remaining strong enough to offset further improvement in energy efficiency. But the continued revival in automobile sales and the corresponding increase in the fuel efficiency of U.S. and worldwide auto fleets will keep a lid on gasoline consumption even if motorists drive more and buy larger cars.

. . . But Continued Conservation . . .

Holding down worldwide demand will be the slow economic recoveries in other major countries. What is more, their desire for oil has been and will continue to be curbed—at least for a while—by the high price of oil in their local currencies. Because of the steep appreciation of the U.S. dollar vis-a-vis other currencies—all petroleum transactions in international markets are conducted in dollars—most major industrialized countries did not realize any benefit from last year's cut in the official OPEC price. In fact, while the cost of a barrel of oil fell in February, 1983, from $34 to $29, when translated into German marks, for example, this price cut has been entirely erased over the past year. So, too, the depreciation of the Italian lira and the French franc more than offset this price break in their countries. Italians now pay seven percent more for their oil and the French pay eight percent more (see chart).

Barring unanticipated supply interruptions, petroleum should remain plentiful. Since midyear, OPEC production has exceeded the quota set last March by at least one million barrels per day (mbd). What is more, Saudi Arabia has put about 50 million barrels—readily available but not currently for sale—in floating storage outside of the Strait of Hormuz, close to refining markets. Several of the smaller countries have been anxious to further increase their oil exports to generate revenues to meet payments on external debt and finance domestic development. Nigeria, for example, has been negotiating an increase in exports of up to one mbd from its current quota of 1.3 mbd.

CURRENT OFFICIAL OPEC PRICE OF CRUDE OIL
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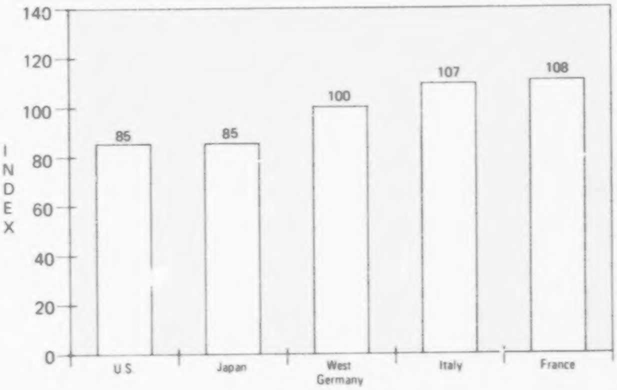
<WEEK ENDING JANUARY 28, 1983=100>



In third-quarter 1983, OPEC production jumped by nearly 14 percent, compared with the March-June period, and was two percent higher than a year ago. In contrast, since 1979, OPEC's annual production average has dropped at rates of 11 to 17 percent per year. Along with sharp cutbacks in domestic imports and development spending, this has resulted in the OPEC countries, as a group, again becoming a net provider of funds to the international financial

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markets. This follows almost two years during which withdrawals by OPEC countries exceeded deposits in Western banks. OPEC deposits amounted to $2.2 billion in third-quarter 1983, while withdrawals amounted to $1.4 billion. In the previous quarter, OPEC balances had plunged by $7.1 billion.

Nonetheless, within OPEC, differences in the financial performance of the various member countries remain wide. Several countries with small populations relative to their petroleum exports have continued to enjoy hefty balance-of-payment surpluses, while several of the more heavily populated oil producers have experienced external payment deficits, necessitating the continued drawdown of existing cash balances.

. . . Will Moderate Demand

Despite the pickup in U.S. consumption, it is obvious that price-induced conservation efforts adopted over the past decade remain an important part of the energy picture. Improving efficiency still has a high priority among American consumers and industry. For example, inflation-adjusted GNP went up 6.2 percent in the fourth quarter of 1983, compared with the same period in the prior year, while total energy use fell 4.4 percent. This means that we are using less and less energy to produce the same level of output. According to the Department of Energy, 45,000 BTUs were needed in the second

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/15/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	156.290	– .446	+13.533
Loans to Depository Inst.	.753	+ .394	– .115
Float	1.139	+ .346	– 1.297
Total Reserve Bank Credit	167.101	+ .264	+11.376
Treasury Deposits with Federal Reserve Banks	4.398	– .312	+ 1.127
Currency Outside Banks**	145.789	– .328	+12.403
Member Bank Reserves:			
Required**	38.858	– .814	– 1.626
Excess (Deficiency)**	.432	– .148	+ .011
Total Reserves Held**	39.290	– .962	– 1.615
Net Borrowed Reserves**	.133	+ .310	+ .419
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.680	+ 4.250	+ 3.429

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1	532.9	‡	‡
M2 (January '84)	2,205.9	+ 7.1	+ 9.3
M3 (January '84)	2,721.9	+ 9.8	+ 9.3
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

† Seasonally adjusted.
** Data as of 2/1/84.
* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 2/17/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.05%	9.25%	9.30%
* Federal Agencies	9.25	9.50	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	9.17	9.26	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.65	9.88	10.05

‡ Finance Company Paper—Prime	
5- 14 days	9.40%
15- 29 days	9.40
30- 59 days	9.40
60- 89 days	9.35
90-179 days	9.20
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Mar.	9.57%
Apr.	9.57
May	9.57
Jun.	9.57
Jul.	9.57
Aug.	9.50

‡ Industrial Paper—Prime	
30- 89 days	9.38%
90-120 days	9.35

† Federal Funds Effective Rate 9.53%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437r	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572r	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9r	7.6	– 1.3
Change in Consumer Prices (new series)*	Dec '83	3.6%	3.6%	– 3.6%
Change in Producer Prices*	Jan '84	7.2%	2.4%	– 13.2%
Civilian Employment (Thousands of Persons) †	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force †	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Jan '84n	$ 2,889	$ 2,858r	$ 2,653
Leading Indicators Composite Index (1967=100) †	Dec '83	167.9	161.9	140.9
Industrial Production Index (1967=100) †	Jan '84n	158.1	156.4r	137.4
Net Change in Consumer Installment Credit †	Dec '83n	$ 6.61	$ 4.67	$ 2.42
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Jan '84n	1,915	1,666r	1,632
New Construction Expenditures*	Dec '83	$ 275.0	$ 275.5	$ 240.2
Total Business Inventories †	Dec '83n	$ 520.0	$ 518.1r	$ 511.9
Total Business Sales †	Dec '83n	$ 395.9	$ 386.6r	$ 338.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

half of 1983 to produce one dollar of GNP, down from 46,500 BTUs the year before. By contrast, in 1973, it took 59,500 BTUs to produce one GNP dollar. In particular, in 1983, only 19,600 BTUs of oil energy were needed to produce one GNP dollar; ten years earlier, nearly 28,000 BTUs were utilized.

Despite the nation's homeowners' conservation efforts, consumption of home heating oil spiraled upward by eight percent in December, compared with a year ago, temporarily lifting prices worldwide. Since heating oil dealers were unprepared, and domestic refineries were not able to crank up production quickly enough to meet demand, many companies were forced to turn to the spot market. In New York, prices shot up from less than $33 to over $44 a barrel in just one month, after remaining virtually stable during the first 11 months of 1983. But since the end of January, temperatures have risen, shortages have eased, and prices have retreated by more than $10 to $34 per barrel.

But this jump seems small when one considers how cold the weather was in the last two weeks of December. The number of heating degree days, as reported by the National Oceanic and Atmospheric Administration, jumped 78 percent from the previous year. During the entire heating season to date, consumption fell by 7.3 percent, despite a 17 percent rise in the number of heating degree days. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/1/84)	142,046	– 880	–29,261
New York City (2/1/84)	28,360	– 257	–14,437
Commercial Paper (2/1/84)	186,196	+ 352	+18,238

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/1/84)	221,442	+ 1,182	NA*
New York City (2/1/84)	57,802	+ 65	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/1/84)	577,344	+ 7,665	NA*
New York City (2/1/84)	131,474	+ 3,627	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 2/17/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.52%	+ .12	+ 1.27
180-Day Bills†	9.93	+ .21	+ 1.38
Longest Bills†	10.25	+ .35	+ 1.40
Recent Issues:			
$10\frac{5}{8}$s 1/31/86	10.85	+ .14	
$11\frac{1}{4}$s 12/31/87	11.45	+ .17	
$11\frac{3}{4}$s 11/15/93	11.90	+ .10	
12s 8/15/13	12.03	+ .13	
Municipals:			
Bond Buyer–20 Bond Index* (2/16/84)	9.68%	+ .12	+ .15
Blue List Total ($ Million)	$1,340	– $156	+ $359
30-Day Visible Supply ($ Million)	$2,086	– $208	– $583
Total	$3,426	– $364	– $224
Corporates:			
Moody's Aa Composite (2/16/84)	12.68%	+ .10	+ .16
30-Day Visible Supply ($ Million)	$1,250	+ $213	+ $940
Stocks:			
Dow-Jones Averages:			
Industrials	1,148.87	– 11.83	+ 56.05
Transportation	502.31	– 12.24	+ 21.61
Utilities	124.66	– 2.51	+ .54
65 Stocks	449.91	– 7.00	+ 19.60
Standard and Poor's 500 Stocks	155.74	– .56	+ 7.74
N.Y.S.E. Composite Index	89.59	– .48	+ 4.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,848	–22,076	+ 5,576

* 46% Taxable equivalent 17.93%.

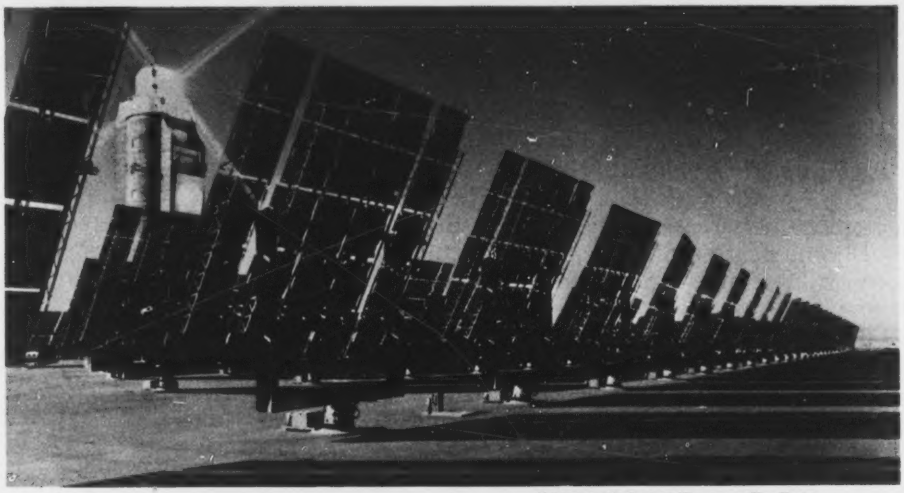
† Bond equivalent.

International Rates

	Friday 2/17/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.50%	9.44%
1 month	9.75	9.69
3 month	10.00	9.81
6 month	10.13	9.94
1 year	10.56	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.50%
Long Term (7 to 15 yrs.)	11.80	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/17/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01818	55.00
Canada	.8014	1.2478
Denmark	.1022	9.7875
France	.1208	8.2775
Germany	.3724	2.6852
Italy	.0006023	1660.30
Japan	.004285	233.35
Mexico	.005988	167.00
Netherlands	.3302	3.0284
Switzerland	.4555	2.1953
U.K.	1.4440	.6925



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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, FEBRUARY 27, 1984

VOLUME XXI, NUMBER 8

The Upbeat Consumer . . .

This month, Washington released a flurry of upbeat business statistics which confirmed that not only is there plenty of life left in the recovery, but also that continued strong expansion appears a good bet in the first quarter. Personal incomes jumped a solid 1.1 percent, month-over-month in January, while retail sales shot up 2.2 percent. This was fueled by robust automobile sales, which rose to their highest level since 1979, and department store sales, which posted their sharpest increase in nine years. What is more, housing starts surged 15 percent in January and the 14.4 percent rise in building permits—a harbinger of future construction activity—suggests that the housing boom is far from over.

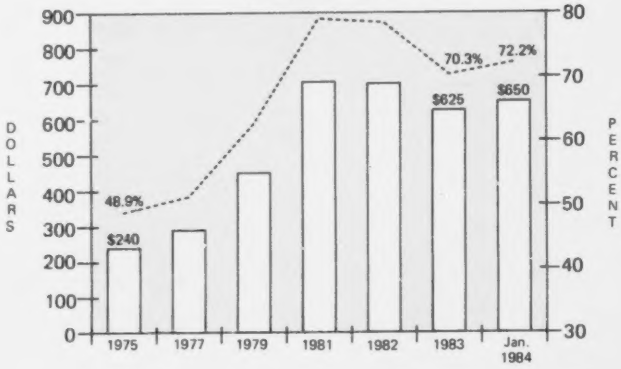
Meanwhile, industrial production increased by a healthy 1.1 percent in January, as manufacturers attempted—although unsuccessfully—to rebuild inventories depleted by strong demand. But while all this was great news for consumers and business alike, it tended to unsettle the financial markets, since it again raised the possibility that the Federal Reserve will tighten the monetary reins in order to prevent the economy, and ultimately the rate of inflation, from overheating.

The consumer is still the driving force behind the economy's forward momentum. January's rise in personal income was based on a good-sized leap in wages and salaries—unlike the gains in the previous two months, when incomes were bolstered by stepped-up Federal government payments to farm proprietors under the Payment-In-Kind program as well as by increased Social Security payments. It occurred thanks to higher employment, a rising number of hours worked and increases in hourly earnings. Importantly, consumer spending, which makes up two thirds of the overall GNP, resumed its brisk pace in January, following December's lull. Not coincidentally, the Conference Board reports that its confidence index is now higher than it has been in over five years, while the University of Michigan survey shows the best results since 1965.

. . . Keeps The Recovery . . .

This perception of improving business conditions has caused shoppers to open their wallets more readily and use credit more freely despite a still low savings rate. It probably resulted in another sizable jump in outstanding consumer installment credit in January, on top of December's record $6.6 billion rise. This spending spree caught many businessmen by surprise. In an attempt to keep their inventories in check, they had been filling up their warehouses slowly. But when sales jumped six times as fast as stocks in December, the overall business inventory-to-sales ratio was pushed sharply lower. In December, it fell to a record low of 1.31 months' sales, when adjusted for seasonal variation but not price changes.

MONTHLY MORTGAGE PAYMENT AT FIXED RATES (BAR) VS. % OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY A NEW HOME (DOT)



To be sure, because of today's lofty interest rate levels and the more efficient computerized methods of inventory control, the levels of stocks that companies keep on hand are unlikely to return to historical norms. However, since companies obviously would prefer not to run the risk of experiencing shortages and thus losing business, accelerated inventory rebuilding may soon get underway. The inventory drawdown occurred mostly at the factory level last month, as manufacturers maintained thin stocks of work in progress, materials and supplies. This bodes well for continued healthy gains in industrial production, not to mention employment.

The two basic industries posting the greatest improvement during the current recovery, and

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especially recently, have been automobiles and housing. Automobile sales perked up at the beginning of this year, jumping from a seasonally adjusted 7.2 million unit annual rate in the fourth quarter of last year to nearly a 9.2 million unit pace in mid-February—leaving several subcompact models in short supply and the inventory of luxury cars well below desired levels. This occurred while manufacturers built 44 percent more cars than in the previous year—the largest number of assemblies for this month in five years.

In turn, the stepped-up auto production boosted demand for products in downstream industries. In December, for example, shipments of steel products to the auto industry rose 66 percent, year-over-year. What is more, the number of dealerships handling domestic makes of passenger cars increased last year—the first annual rise in nearly three decades.

. . . Solidly On Track

So too, sales of new and existing homes continue to soar. In December, sales of new single-family homes ran 28 percent higher than November's rate and more than 50 percent above a year ago, leaving builders with only 4.5 months' supply at December's selling rate. This was the lowest supply rate in more than 12 years. The increase in the number of existing homes sold in December was not as dramatic, although it was 25 percent above a year ago.

While much of this strength in the housing numbers

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/22/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.209	+ .919	+11.758
Loans to Depository Inst.	.634	– .119	+ .159
Float	1.004	– .067	– .528
Total Reserve Bank Credit	166.807	– .226	+10.423
Treasury Deposits with Federal Reserve Banks	4.864	+ .466	+ 1.643
Currency Outside Banks**	145.789	– .328	+12.403
Member Bank Reserves:			
Required**	38.858	– .814	– 1.626
Excess (Deficiency)**	.432	– .148	+ .011
Total Reserves Held**	39.290	– .962	– 1.615
Net Borrowed Reserves**	.133	+ .310	+ .419
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.650	– .030	+ 3.399

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (2/13/84)	532.9	‡	‡
M2 (January '84)	2,205.9	+ 7.1	+ 9.3
M3 (January '84)	2,273.4	+ 10.0	+ 9.4
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

† Seasonally adjusted.
** Data as of 2/1/84.
* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 2/24/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.25%	9.35%	9.40%
* Federal Agencies	9.35	9.65	10.25
* Project Notes—Taxfree (46% Taxable Equivalent)	9.17	9.44	10.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.76	9.95	10.45

‡ Finance Company Paper—Prime	
5- 14 days	9.35%
15- 29 days	9.40
30- 59 days	9.45
60- 89 days	9.40
90-179 days	9.20
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Mar.	9.50%
Apr.	9.50
May	9.50
Jun.	9.50
Jul.	9.50
Aug.	9.50

‡ Industrial Paper—Prime	
30- 89 days	9.40%
90-120 days	9.40

† Federal Funds Effective Rate 9.60%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	– 1.3
Change in Consumer Prices (new series)*	Jan '84n	6.0%	3.6%	2.4%
Change in Producer Prices*	Jan '84	7.2%	1.2%r	– 8.4%r
Civilian Employment (Thousands of Persons) †	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force †	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Jan '84	$ 2,889	$ 2,858	$ 2,653
Leading Indicators Composite Index (1967=100) †	Dec '83	162.9	161.9	140.9
Industrial Production Index (1967=100) †	Jan '84	158.1	156.4	137.4
Net Change in Consumer Installment Credit †	Dec '83	$ 6.61	$ 4.67	$ 2.42
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Jan '84	1,915	1,666	1,632
New Construction Expenditures*	Dec '83	$ 275.0	$ 275.5	$ 240.2
Total Business Inventories †	Dec '83	$ 520.0	$ 518.1	$ 511.9
Total Business Sales †	Dec '83	$ 395.9	$ 386.6	$ 338.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

is a result of lower mortgage interest rates, it also reflects the growing popularity of variable rate mortgages. These mortgages permit homeowners to borrow initially at rates several percentage points lower than on conventional mortgages, and have a lower—or sometimes no—origination fee. In January, for example, three out of every five homebuyers financed their homes with adjustable rate mortgages—the first time ever that the number of variable rate mortgage originations exceeded the number of conventional, fixed-rate originations.

The difference in monthly payments between these two types of mortgages can be substantial. Currently averaging 11.63 percent, the adjustable rate saves the buyer of a median-priced home of $75,900 who puts down 25 percent of the purchase price almost $100 per month compared with a 13 percent conventional 30-year mortgage. Applying the rule of thumb that households should not devote more than one quarter of their monthly gross income for servicing their mortgage, only about 28 percent of first-time homebuyers are able to afford to buy a new home when financing a fixed-rate mortgage (see chart on page 1). If, however, an adjustable rate is used, an additional eight percent of U.S. households qualify. That is equivalent to the proportion to households capable of purchasing a new home in late 1978. At that time, housing starts topped two million units.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest	Change Since	
	Week	Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/8/84)	140,762	– 1,302	–28,959
New York City (2/8/84)	28,345	– 15	–13,886
Commercial Paper (2/15/84)	188,890	– 157	+20,766

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest	Change Since	
Weekly Reporting Large Commercial Banks	Week	Week Ago	Year Ago
Nationwide (2/8/84)	222,905	+ 1,483	NA*
New York City (2/8/84)	58,536	+ 734	– 2,001

Total Loans and Leases Gross Adjusted

	Latest	Change Since	
	Week	Week Ago	Year Ago
Nationwide (2/8/84)	575,498	– 1,760	NA*
New York City (2/8/84)	129,736	– 1,669	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday	Change Since	
	2/24/84	Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.10%	– .42	+ 1.00
180-Day Bills†	9.26	– .67	+ .94
Longest Bills†	9.30	– .95	+ .73
Recent Issues:			
$10\frac{7}{8}$s 2/28/86 (When Issued)	10.98	NA	
$11\frac{1}{4}$s 12/31/87	11.53	+ .08	
$11\frac{3}{4}$s 11/15/93	12.03	+ .13	
12s 8/15/13	12.15	+ .12	
Municipals:			
Bond Buyer–20 Bond Index* (2/23/84)	9.80%	+ .12	+ .46
Blue List Total ($ Million)	$1,416	+$ 76	+ $ 371
30-Day Visible Supply ($ Million)	$1,920	–$ 166	– $ 355
Total	$3,336	–$ 90	+ $ 16
Corporates:			
Moody's Aa Composite (2/23/84)	12.79%	+ .11	+ .35
30-Day Visible Supply ($ Million)	$3,140	+ $1,890	+ $2,177
Stocks:			
Dow-Jones Averages:			
Industrials	1,165.10	+ 16.23	+ 44.16
Transportation	910.9	+ 8.58	+ 18.59
Utilities	125.05	+ .39	+ .23
65 Stocks	455.95	+ 6.04	+ 15.87
Standard and Poor's 500 Stocks	157.51	+ 1.77	+ 7.77
N.Y.S.E. Composite Index	90.49	+ .90	+ 4.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,358	+ 6,510	– 4,470

* 46% Taxable equivalent 18.15%.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/24/84	Week Ago
Overnight	9.56%	9.50%
1 month	9.81	9.75
3 month	10.13	10.00
6 month	10.38	10.13
1 year	10.75	10.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.72%	11.60%
Long Term (7 to 15 yrs.)	11.91	11.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/24/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01858	53.83
Canada	.8006	1.2491
Denmark	.1038	9.6375
France	.1234	8.1050
Germany	.3803	2.6295
Italy	.0006128	1631.90
Japan	.004296	232.80
Mexico	.005935	168.50
Netherlands	.3365	2.9715
Switzerland	.4599	2.1745
U.K.	1.4675	.6814

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 5, 1984

VOLUME XXI, NUMBER 9

U.S. Recovery Helps Europe . . .

The U.S. economy, in the sixteenth month of a vigorous and broad-based upswing, is now becoming a factor behind the rekindling of economic activity abroad. Although high interest rates, record unemployment levels and anti-inflationary monetary policies continue to retard recovery in most other industrial nations, the surge of imports into the United States since the fourth quarter of 1982 has provided a strong stimulus toward global economic resurgence. During the first year of the current recovery, U.S. imports of goods and services rose by almost 21 percent in real terms, compared with an average of less than 13 percent for the seven previous postwar upswings (see chart).

Part of this, of course, traces to the strength of the dollar. Although the dollar has weakened by almost six percent since it reached its record trade-weighted peak in January of this year, it is still 20 percent above its level at the beginning of 1982. As a consequence, U.S. merchandise imports have far exceeded exports, not only contributing to the growth of the export sector of our trading partners, but also reducing competition from U.S. exports in their own and in third-country markets.

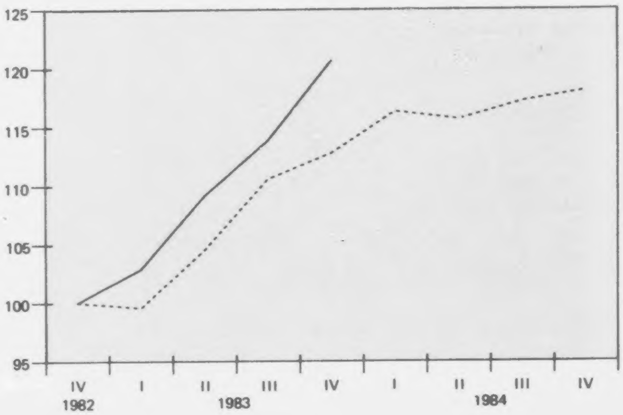
The U.S. in 1983 ran a record merchandise trade deficit with the rest of the world—taking in $61 billion (balance of payments basis) more in imports than it sent abroad in exports. While the value of imports increased by five percent in dollar terms, the volume of imports, because of the strong dollar, rose by 12 percent. Importantly, the increase in imports in 1983 was more than accounted for by nonpetroleum imports. Indeed, petroleum imports decreased last year in both value and volume terms.

The widespread impact of the flood of imports into the United States can be seen in this country's trade balances with other areas. The traditional U.S. trade surplus with Western Europe, for example, decreased from almost $7 billion in 1982 to $1 billion in 1983 and the equally persistent trade deficit with Japan skyrocketed from $17 billion in 1982 to $19.5 billion in 1983—a 15 percent jump.

. . . And The LDCs' . . .

The non-oil developing countries, many of which have restricted their imports as a result of their external debt problems while at the same time maximizing their export efforts, have also recorded substantial surpluses in their trade with this country. Mexico's surplus in its trade with the U.S. more than doubled from $3.8 billion in 1982 to $7.8 billion in 1983. The other countries of Latin America in the aggregate performed even more impressively, increasing their trade surplus with this country from $1.6 billion to $8.4 billion between 1982 and 1983. These surpluses constitute an important contribution to the brightening economic prospects of Latin America.

U.S. REAL IMPORTS OF GOODS & SERVICES: CURRENT RECOVERY (LINE) VS. AVERAGE OF PRIOR 7 RECOVERIES (DOT) <TROUGH=100>



The role being played in the improving global economic environment by the U.S. recovery is likely to continue at least through 1984. The most recent batch of U.S. economic statistics shows that the present upswing is both strong and durable. In January the index of leading indicators rose by a hefty 1.1 percent, while even the announcement of a record $9.5 billion U.S. merchandise trade deficit in January can be viewed as additional testimony to the continuing vigor of U.S. demand. The likelihood that the U.S. this year will run an even larger trade

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deficit further brightens the outlook for other countries' exports.

Many of the other major economies of the Free World are more heavily dependent upon their export sectors for their economic prosperity than is the U.S. Whereas merchandise exports in the last ten years averaged only about seven percent of GNP in the United States, Germany's exports averaged about 24 percent of its GNP and Japan's sales abroad added up to 12 percent of its economy. Other countries are even more export dependent. The Netherlands for example, generated an average of 43 percent of its GDP from exports. Hence, a substantial rise in these countries' exports to the U.S.– the world's largest trader—is an important factor in their economic recovery. In 1983, Germany's exports to the U.S. rose by 5.8 percent over 1982, while Japan's exports to the U.S. rose 9.1 percent and those of the Netherlands rebounded 18.7 percent.

. . . Prospects Are Brighter

The growth in exports by the principal industrial nations will, thus, have a large influence on their economic prospects for 1984. After increasing about 1.5 percent year-over-year in 1983, real GNP growth in Germany is expected to rise by a further 2.5 percent this year—low by historic standards but a substantial turnaround after the extended recession of 1981 and 1982. Similarly, in Japan, rising export

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/29/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	156.241	– .968	+12.513
Loans to Depository Inst.	.507	– .127	– .203
Float	1.587	+ .585	– .781
Total Reserve Bank Credit	166.455	– .350	+10.666
Treasury Deposits with Federal Reserve Banks	4.415	– .449	+ 1.519
Currency in Circulation	166.888	+ .449	+13.577
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.391	+ 2.741	+ 6.950
Member Bank Reserves:			
Total Reserves Held	35.887	– .495	– .731
Excess (Deficiency)	.664	– .514	+ .130
Net Free Reserves	.282	– .242	+ .120

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (2/20/84)	534.7	‡	‡
M2 (January '84)	2,206.0	+ 7.2	+ 9.3
M3 (January '84)	2,722.5	+ 9.8	+ 9.3
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/2/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.15%	9.30%	9.35%
* Federal Agencies	9.65	9.95	10.10
* Project Notes–Taxfree (46% Taxable Equivalent)	9.35	9.72	10.65
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.73	9.92	10.45

‡ Finance Company Paper–Prime	
5- 14 days	9.35%
15- 29 days	9.40
30- 59 days	9.45
60- 89 days	9.45
90-179 days	9.30
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Apr.	9.52%
May	9.52
Jun.	9.52
Jul.	9.52
Aug.	9.52
Sep.	9.52

‡ Industrial Paper–Prime	
30- 89 days	9.45%
90-120 days	9.45

† Federal Funds	
Effective Rate	9.80%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437	$ 3.362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	– 1.3
Change in Consumer Prices (new series)*	Jan '84	7.2%	2.4%	3.6%
Change in Producer Prices*	Jan '84	7.2%	1.2%	– 8.4%
Civilian Employment (Thousands of Persons) †	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force †	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Jan '84	$ 2,889	$ 2,858	$ 2,653
Leading Indicators Composite Index (1967=100) †	Jan '84n	164.7	162.9	145.2
Industrial Production Index (1967=100) †	Jan '84	158.1	156.4	137.4
Net Change in Consumer Installment Credit †	Dec '83	$ 6.61	$ 4.67	$ 2.42
U.S. Merchandise Trade Balance †	Jan '84n	–$ 9.47	–$ 6.74r	–$ 3.84
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Jan '84	1,915	1,666	1,632
New Construction Expenditures*	Jan '84n	$ 281.8	$ 277.8r	$ 247.9
Total Business Inventories †	Dec '83	$ 520.0	$ 518.1	$ 511.9
Total Business Sales †	Dec '83	$ 395.9	$ 386.6	$ 338.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

sales to the U.S. and elsewhere, along with reviving domestic demand, will strengthen the Japanese economy. After three percent growth in 1983, Japan's real GNP should expand by some 4½ percent in 1984.

With the U.S., German and Japanese economies (along with others) pulling in tandem, the prospects for the developing countries (LDCs) will improve as well. Already the non-oil developing countries have sharply increased their exports to the U.S. In 1983 exports of the non-oil LDCs to the U.S. rose by over 14 percent, with Brazil increasing its exports by almost 16 percent. Both Brazil and Mexico, through harsh internal policy measures, generated impressive trade surpluses of an estimated $6.5 billion and $12.5 billion respectively in 1983, and are expected to do as well or better this year. While Brazil may again experience a decline in its GNP of perhaps one percent this year, Mexico's real GNP should see growth of one percent.

With prospects bright for continued strong growth in the U.S. and Japan, and with a nascent recovery in the industrial countries of Western Europe, the demand for the exports of the LDCs can be expected to rise rapidly, helping those countries to participate in the improved global economic climate. If the U.S. is able to sustain its cyclical upturn into 1985 and beyond, it will create a firm foundation for a return to sound economic growth worldwide.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/15/84)	140,608	– 124	–26,379
New York City (2/22/84)	28,361	– 238	–12,780
Commercial Paper (2/22/84)	190,637	+ 1,664	+22,371

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/15/84)	222,919	+ 2	NA*
New York City (2/22/84)	58,006	+ 244	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/15/84)	580,626	+ 5,209	NA*
New York City (2/22/84)	132,976	– 207	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/2/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.15%	+ .05	+ .88
180-Day Bills†	9.25	– .01	+ .80
Longest Bills†	9.30	–0–	+ .66
Recent Issues:			
10⅞s 2/28/88	10.97	– .01	
11¼s 12/31/87	11.55	+ .02	
11¾s 11/15/93	12.04	+ .01	
12s 8/15/13	12.15	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (3/1/84)	9.86%	+ .06	+ .82
Blue List Total ($ Million)	$1,390	– $ 26	+ $ 227
30-Day Visible Supply ($ Million)	$2,265	+ $345	– $1,173
Total	$3,655	+ $319	– $ 946
Corporates:			
Moody's Aa Composite (3/1/84)	12.99%	+ .20	+ .74
30-Day Visible Supply ($ Million)	$3,140	–0–	+ $2,257
Stocks:			
Dow-Jones Averages:			
Industrials	1,171.48	+ 6.38	+ 30.52
Transportation	520.58	+ 9.69	+ 9.46
Utilities	129.38	+ 4.33	+ .09
65 Stocks	461.94	+ 5.99	+ 10.24
Standard and Poor's 500 Stocks	159.24	+ 1.73	+ 5.57
N.Y.S.E. Composite Index	91.67	+ 1.18	+ 3.04
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,738	+ 3,380	– 6,428

* 46% Taxable equivalent 18.26%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/2/84	Week Ago
Overnight	9.63%	9.56%
1 month	9.81	9.81
3 month	10.06	10.13
6 month	10.31	10.38
1 year	10.81	10.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.80%	11.72%
Long Term (7 to 15 yrs.)	11.95	11.91

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/2/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01888	52.96
Canada	.7996	1.2507
Denmark	.1043	9.5900
France	.1255	7.9650
Germany	.3868	2.5850
Italy	.0006205	1611.50
Japan	.004290	233.08
Mexico	.005874	170.25
Netherlands	.3428	2.9175
Switzerland	.4626	2.1615
U.K.	1.4815	.6750

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 12, 1984
VOLUME XXI, NUMBER 10

The Waning Dollar . . .

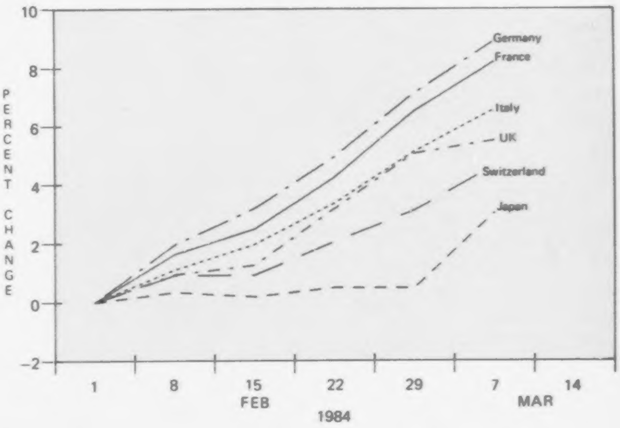
The sharp drop in the foreign exchange value of the dollar in recent weeks has revived speculation, after many false starts, that this is the beginning of a sustained decline. After reaching a record high in mid-January (Financial Digest—January 30, 1984), the dollar fell by nearly seven percent on a trade-weighted basis in the ensuing eight weeks. The dollar's depreciation against the major currencies has been even more impressive. In the five weeks ending March 7, the German mark rose against the dollar by 8.9 percent, the French franc by 8.2 percent, the Italian lira by 6.6 percent and the British pound by 5.5 percent. In the first week of March alone, the Japanese yen jumped by 2.5 percent (see chart).

But there have been other periods of weakness since the dollar began its sharp climb in mid-1980. For example, the dollar fell by about nine percent in the latter half of 1981 and again by 7.5 percent at the end of 1982. However, these declines proved to be only short-lived interruptions in an otherwise steady rise. The dollar is still about 50 percent above its low point of mid-1980.

This time there is reason to believe that the dollar may be in for a more sustained downward move. For one thing, the huge trade and current account deficits experienced by the U.S. last year and the prospects for even greater deficits in our external accounts this year, along with record Federal budget deficits, have reduced confidence abroad in our economic policies. Another cause for concern is that with an election year in progress in the United States and with an impasse between the Administration and the Congress over fiscal policy, prospects for an improvement in our economic management are diminishing. Further, gradual recovery in Europe and elsewhere would appear to make domestic investments in those countries more attractive, reducing foreign demand for dollars.

. . . Will Have Widespread Effects . . .

If the U.S. is, indeed, entering a period of substantial weakness for the dollar, the global effects—good and bad—will be widespread. Among the often-cited benefits of a weaker dollar for the U.S. is a reduction in our trade deficit. U.S. exports would become more competitive abroad, creating jobs in the export sector. New jobs, in turn, create increased domestic demand, thus extending and broadening the ongoing U.S. recovery. Further, a weaker dollar might be expected to reduce the demand for imports as they become more expensive in dollar terms. This, too, would add to domestic demand as buyers turn to U.S. products for their needs.



VALUES IN U.S. DOLLARS OF MAJOR CURRENCIES
% CHANGE FROM FEBRUARY 1, 1984
(WEEKLY FIGURES)

These favorable effects on our trade account may not be all that strong. Other factors beyond the external value of the dollar play an essential and perhaps a decisive role in determining the levels of imports and exports. One important factor is the condition of the global economy. In two recent periods when the dollar weakened significantly, U.S. real exports and imports both increased sharply, making almost equal percentage gains. In both periods—between 1971 and 1973 (just before the first oil price rise) and between 1976 and 1980—global economic growth was well above average. This time, the dollar appears to be weakening in a period of low growth elsewhere—a factor likely to inhibit U.S. export gains while a strong recovery here still encourages imports.

Another important factor relates to the structure of

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exports. The price effects of a currency's depreciation are not uniform for all export industries. Many U.S. exports are complex products with a long period between order and delivery. Consequently, the effects of the dollar's decline may be lagged by as much as two years.

There are other possible trade effects resulting from a decline in the dollar's external value. Even though the dollar's decline will, in many cases, make our exports cheaper in foreign currency terms, some traditional markets for U.S. exports may not revive rapidly, this time around. U.S. exports to Latin America, which amounted to 17 percent of total U.S. exports in 1981, have fallen by almost 40 percent in value since that year, as a result of the external debt problems of some of those countries. U.S. exports to this market may not return to previous levels for some time—no matter how much the dollar falls.

. . . Both Here And Abroad

As strange as it may seem, the rest of the world may well realize more benefits from the depreciation of the dollar than the U.S. Not only will U.S. goods be cheaper in terms of the other countries' currencies, but prices of a wide range of internationally-traded goods—particularly petroleum—which are set in dollars, will also be lower. The non-oil developing countries, particularly those with high external debt

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/7/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	157.764	+ 1.523	+14.520
Loans to Depository Inst.	.493	− .014	− .133
Float	.461	− 1.076	− 1.826
Total Reserve Bank Credit	167.087	+ .679	+12.251
Treasury Deposits with			
Federal Reserve Banks	3.557	− .858	− .152
Currency in Circulation	167.519	+ .575	+13.452
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.970	− 1.421	+ 3.836
	2/29/84		
Member Bank Reserves:			
Total Reserves Held	35.643	− 1.161	− 4.199
Excess (Deficiency)	.700	− .459	+ .166
Net Free Reserves	.318	− .187	+ .156
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (2/27/84)	533.3	‡	‡
M2 (January '84)	2,206.0	+ 7.2	+ 9.3
M3 (January '84)	2,720.8	+ 9.6	+ 9.3
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/9/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.90%	9.05%	9.18%
* Federal Agencies	9.30	9.95	10.00
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.72	10.74
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.05	10.30	10.95

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.60%	Apr.	9.83%
15- 29 days	9.60	May.	9.88
30- 59 days	9.63	Jun.	9.88
60- 89 days	9.63	Jul.	9.93
90-179 days	9.75	Aug.	9.93
180-239 days	9.75	Sep.	9.93
240-270 days	9.75		

‡Industrial Paper—Prime			
30- 89 days	9.60%	†Federal Funds	
90-120 days	9.50	Effective Rate	9.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	− 1.3
Change in Consumer Prices (new series)*	Jan '84	7.2%	2.4%	3.6%
Change in Producer Prices*	Jan '84	7.2%	1.2%	− 8.4%
Civilian Employment (Thousands of Persons)†	Feb '84n	103,892	103,190	99,172
Unemployment as % of Civilian Labor Force†	Feb '84n	7.8%	8.0%	10.4%
Personal Income*	Jan '84	$ 2,889	$ 2,858	$ 2,653
Leading Indicators Composite Index (1967=100)†	Jan '84	164.7	162.9	145.2
Industrial Production Index (1967=100) †	Jan '84	158.1	156.4	137.4
Net Change in Consumer Installment Credit †	Dec '83	$ 6.61	$ 4.67	$ 2.42
U.S. Merchandise Trade Balance †	Jan '84	−$ 9.47	−$ 6.74	−$ 3.84
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Jan '84	1,915	1,666	1,632
New Construction Expenditures*	Jan '84	$ 281.8	$ 277.8	$ 247.9
Total Business Inventories †	Dec '83	$ 520.0	$ 518.1	$ 511.9
Total Business Sales †	Dec '83	$ 395.9	$ 386.6	$ 338.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

levels, will also benefit to the extent that those of their exports which are sold in other currencies will generate a greater number of dollars, assisting them in meeting their external debt obligations which are largely dollar-denominated.

Financial assets denominated in a weakening dollar will be less attractive to foreign investors, even if interest rates remain high, since the value of their investments will decline in their own currency's terms. This might encourage foreigners to invest in their own countries. What is more, a drop in the dollar's exchange rate will allow many foreign central banks to lower interest rates, thereby stimulating business activity and adding to economic growth without depressing their own currencies' exchange value. Further, by reducing the domestic cost of many imports, a weaker dollar will contribute to the slowing of inflation abroad.

The big question, of course, is whether the dollar will weaken significantly, given likely interest rate trends here and abroad. Contrary to a possible falling interest rate trend overseas, interest rates in the U.S. are poised to rise because of increasing demands for funds by the public and private sectors against a fairly restrictive monetary policy. This suggests that the real interest rate gap may once more widen in favor of the U.S.—and it was this differential that caused the dollar to climb in the first place.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/22/84)	140,970	+ 361	–21,037
New York City (2/29/84)	28,716	+ 355	–12,476
Commercial Paper (2/29/84)	191,006	+ 381	+23,345

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/22/84)	223,723	+ 1,319	NA*
New York City (2/29/84)	59,544	+ 1,538	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/22/84)	581,265	+ 552	NA*
New York City (2/29/84)	132,995	+ 19	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/9/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.70%	+ .55	+ 1.19
180-Day Bills†	10.10	+ .85	+ 1.39
Longest Bills†	10.40	+ 1.10	+ 1.46
Recent Issues:			
$10\frac{7}{8}$s 2/28/86	11.15	+ .18	
$11\frac{1}{4}$s 12/31/87	11.75	+ .20	
$11\frac{3}{4}$s 11/15/93	12.25	+ .21	
12s 8/15/13	12.35	+ .20	
Municipals:			
Bond Buyer–20 Bond Index* (3/8/84)	9.94%	+ .08	+ .72
Blue List Total ($ Million)	$1,336	– $ 54	+ $ 85
30-Day Visible Supply ($ Million)	$2,657	+ $392	– $1,475
Total	$3,993	+ $338	– $1,390
Corporates:			
Moody's Aa Composite (3/8/84)	13.14%	+ .15	+ .75
30-Day Visible Supply ($ Million)	$3,375	+ $235	+ $2,525
Stocks:			
Dow-Jones Averages:			
Industrials	1,139.76	– 31.72	+ 22.02
Transportation	498.46	– 22.12	– 4.88
Utilities	125.92	– 3.46	– 1.06
65 Stocks	447.55	– 14.39	+ 4.19
Standard and Poor's 500 Stocks	154.35	– 4.89	+ 3.11
N.Y.S.E. Composite Index	88.94	– 2.73	+ 1.65
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,504	–15,234	– 2,618

* 46% Taxable equivalent 18.41%.

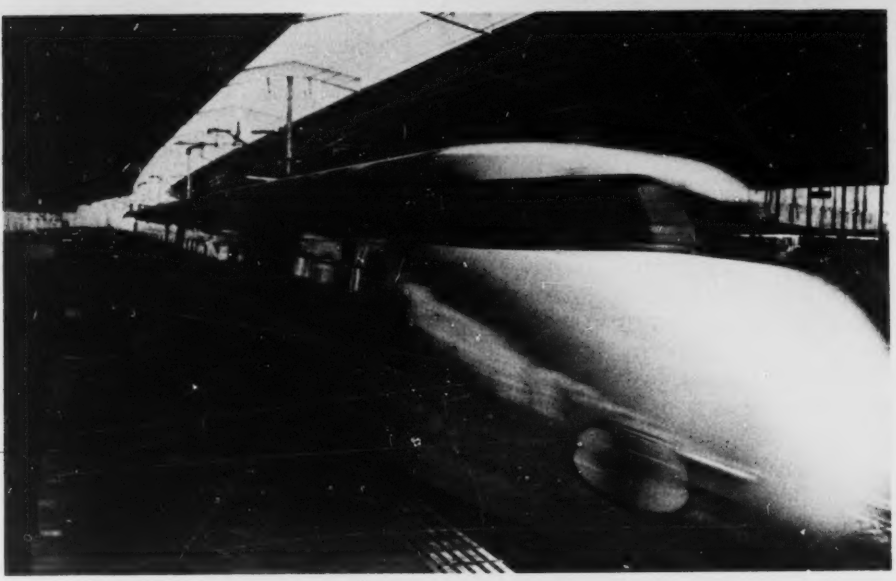
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/9/84	Week Ago
Overnight	9.63%	9.63%
1 month	10.00	9.81
3 month	10.31	10.06
6 month	10.63	10.31
1 year	11.06	10.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	11.80%
Long Term (7 to 15 yrs.)	12.20	11.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/9/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01899	52.67
Canada	.7891	1.2672
Denmark	.1065	9.3895
France	.1261	7.9330
Germany	.3885	2.5740
Italy	.0006248	1600.50
Japan	.004462	224.10
Mexico	.005865	170.50
Netherlands	.3444	2.9040
Switzerland	.4702	2.1267
U.K.	1.4620	.6840



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The Manufacturers
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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 19, 1984
VOLUME XXI, NUMBER 11

For Organized Labor . . .

Despite the recent uptick in the rate of inflation at the retail and wholesale levels, worries that another inflation spiral is at hand are still premature. While the cold weather has pushed up food prices and caused a surge in home heating costs, the important "underlying," or "core," rate of inflation has continued its more than two-year descent. After peaking at close to ten percent in 1981, this determinant of the long-term trend in price changes, measured by the annual rise in labor and capital costs per unit of output, is now below six percent—with further improvement likely.

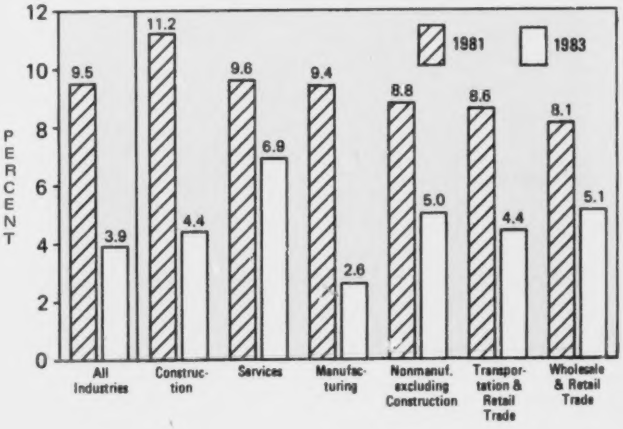
While lower capital costs contributed significantly to the drop in the core rate, the moderation in wage increases combined with rising productivity were primarily responsible. And keeping labor costs low is crucial to keeping inflation in check, since they represent two thirds of total business operating costs. In 1983, compensation per hour (which also includes employers' payments for social insurance and benefit plans) rose only 5.6 percent, compared with the previous year, posting the smallest annual rise since 1967. When productivity gains are factored in, labor costs per unit of output in many sectors of the economy were either flat compared with a year ago or actually declined.

One of the most important contributors to the moderation in wage increases has been a sharp reduction in pay gains received by organized labor. While settlements usually reflect overall economic conditions in general and the health and strength of individual companies and industries in particular, 1983's major collective bargaining contracts settled in private industry and government yielded the lowest average wage adjustments in the years that the Labor Department has been keeping track. This has occurred despite last year's stepped-up pace of business activity. It seems that worries over the continued high rate of unemployment, low capacity utilization, deregulation of many industries, plant obsolescence and the growing inroads by foreign producers have placed increased emphasis on the preservation of jobs at the expense of increased wages and benefits.

. . . It Could Be Another Year . . .

Last year, 25 percent of the three million workers who bargained agreed to wage freezes—and some even to pay cuts. Nearly half a million workers—mostly in the steel, transportation and construction industries took pay cuts averaging nearly seven percent in the first year of their contracts. While some will receive wage increases which will fully restore these reductions by the end of their contracts, the majority will continue to make less.

WAGE ADJUSTMENTS
IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(SELECTED INDUSTRIES)



At nearly seven percent, wage gains in 1983 were the highest in service industries, which had escaped the recession relatively unscathed (see chart). On the other hand, the recession had more of an impact on the bargaining power of workers in the manufacturing and transportation sectors, forcing labor and management to trim labor costs substantially. Similarly, despite stepped-up homebuilding—which last year more than offset a drop in nonresidential construction—settlements in the construction industry called for the smallest average wage and compensation adjustments in more than 16 years. Last year's 4.4 percent pay hike was less than half of that negotiated in 1982 and considerably below the 11.2 percent received in 1981.

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. . . Of Small Wage Raises

But even with the recovery well underway, many workers still may not see their paychecks increase much this year. Unions are likely to continue to emphasize job security in upcoming contract negotiations, while wage and benefit improvements are likely to take second place. For despite the healthier economy, many companies are still encountering foreign competition, deregulation and competition from nonunion companies. What is more, most of the principal industries involved in negotiations this year are not fully recovered from the last recession.

Nevertheless, 1984 will be an important labor year, since collective bargaining will involve more than three million workers. It will be the third year in a row of heavy bargaining, breaking a 30-year pattern of two years of heavy negotiations followed by one year of light activity. One of the first large groups to negotiate a new contract this year was workers in the petroleum refining industry. Faced with uncertainties regarding the demand for petroleum products, plant closings, excess capacity, the drop in oil exploration and a more than ten percent decline in the industry's employment from its 1981 peak, these workers settled for a 1.5 percent rise in wages in the first year of contract and an increase in their employers' contribution for such benefits as medical insurance. By contrast, the last time they were at the bargaining table—only two years ago—they won pay raises of nine percent.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/14/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.784	+ .020	+13.720
Loans to Depository Inst.	.886	+ .393	– .004
Float	1.803	+ 1.344	– .035
Total Reserve Bank Credit	169.056	+ 1.971	+13.414
Treasury Deposits with Federal Reserve Banks	2.825	– .732	– .865
Currency in Circulation	168.526	+ 1.007	+13.765
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.645	– 1.325	+ 7.720
Member Bank Reserves:	3/14/84		
Total Reserves Held	36.312	+ .651	– 1.468
Excess (Deficiency)	.673	– .043	+ .262
Net Borrowed Reserves	.059	– .393	– .050

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/5/84)	532.0	‡	‡
M2 (February '84)	2,221.9	+ 7.3	+ 8.2
M3 (February '84)	2,743.8	+ 8.2	+ 9.0
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/16/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.40%	9.55%	9.60%
* Federal Agencies	9.90	10.20	10.35
* Project Notes—Taxfree (46% Taxable Equivalent)	9.35	9.72	10.93
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.02	10.27	10.85

‡Finance Company Paper—Prime	
5- 14 days	9.75%
15- 29 days	9.80
30- 59 days	9.80
60- 89 days	9.75
90-179 days	9.75
180-239 days	9.75
240-270 days	9.75

‡* Bankers' Acceptances	
Apr.	9.80%
May	9.80
Jun.	9.80
Jul.	9.93
Aug.	9.93
Sep.	9.93

‡Industrial Paper—Prime	
30- 89 days	9.80%
90-120 days	9.80

†Federal Funds Effective Rate	9.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	– 1.3
Change in Consumer Prices (new series)*	Jan '84	7.2%	2.4%	3.6%
Change in Producer Prices*	Feb '84n	4.8%	7.2%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '84	103,892	103,190	99,172
Unemployment as % of Civilian Labor Force†	Feb '84	7.8%	8.0%	10.4%
Personal Income*	Jan '84	$ 2,889	$ 2,858	$ 2,6[illegible]3
Leading Indicators Composite Index (1967=100)†	Jan '84	164.7	162.9	145.2
Industrial Production Index (1967=100) †	Feb '84n	159.1	158.0r	138.1
Net Change in Consumer Installment Credit †	Jan '84n	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Jan '84	–$ 9.47	–$ 6.74	–$ 3.84
Plant and Equipment Expenditures*	2nd Q'84n	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84n	2,197	1,976r	1,706
New Construction Expenditures*	Jan '84	$ 281.8	$ 277.8	$ 247.9
Total Business Inventories †	Jan '84n	$ 522.7	$ 520.7r	$ 507.6
Total Business Sales †	Jan '84n	$ 402.0	$ 396.7r	$ 345.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Between March and June of this year, contracts for half of all construction workers under major agreements are scheduled to expire. But once again, labor will be negotiating from a position of weakness. Relatively high mortgage interest rates are likely to keep a lid on residential construction, while business spending on nonresidential structures is not expected to expand much. The unemployment rate for construction workers currently exceeds 15 percent. Organized labor's problems have been further exacerbated by stepped-up competition from nonunion contractors.

Later this year, contracts for about 450,000 auto workers are scheduled to expire. This time the auto industry is in a much different position than the last time the same companies negotiated. Then (early 1982), sales were falling precipitously and unemployment in the industry as a whole stood near 20 percent. Now these companies are reporting record profits and year-to-date auto sales are at a five-year high. Management stresses that this turnaround in earnings is probably more the result of massive cost cutting and increased manufacturing efficiency than higher sales levels. In fact, they say that at today's sales rates, the companies would be losing money if they still operated at 1978 cost structures. Still, the industry is in better shape than most, and thus may be a good test of whether labor will be able to restore the givebacks yielded during the recession or whether job security concerns will remain paramount.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/29/84)	141,544	+ 669	−17,660
New York City (3/7/84)	29,478	+ 761	−10,345
Commercial Paper (3/7/84)	192,914	+ 2,058	+25,930

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/29/84)	226,733	+ 3,043	NA*
New York City (3/7/84)	59,540	− 4	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/29/84)	585,454	+ 4,180	NA*
New York City (3/7/84)	130,823	− 2,034	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/16/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.69%	− .01	+ .84
180-Day Bills†	10.12	+ .02	+ 1.12
Longest Bills†	10.38	− .02	+ 1.12
Recent Issues:			
10⁷/₈s 2/28/86	11.12	− .03	
11 ¹/₄s 12/31/87	11.42	− .33	
11³/₄s 11/15/93	12.18	− .07	
12s 8/15/13	12.31	− .04	
Municipals:			
Bond Buyer–20 Bond Index* (3/15/84)	9.98%	+ .04	+ .79
Blue List Total ($ Million)	$1,409	+ $ 73	+ $ 145
30-Day Visible Supply ($ Million)	$2,575	− $ 82	− $ 955
Total	$3,984	− $ 9	− $ 810
Corporates:			
Moody's Aa Composite (3/15/84)	13.23%	+ .09	+ .88
30-Day Visible Supply ($ Million)	$3,495	+$ 120	+ $ 298
Stocks:			
Dow-Jones Averages:			
Industrials	1,184.36	+ 44.60	+ 66.62
Transportation	518.21	+ 19.75	+ 11.94
Utilities	127.60	+ 1.68	+ 1.35
65 Stocks	463.48	+ 15.93	+ 19.67
Standard and Poor's 500 Stocks	159.27	+ 4.92	+ 9.37
N.Y.S.E. Composite Index	91.73	+ 2.79	+ 5.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	92,670	+13,166	+ 21,960

* 46% Taxable equivalent 18.48%.

† Bond equivalent.

International Rates

	Friday 3/16/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.88%	9.63%
1 month	10.06	10.00
3 month	10.31	10.31
6 month	10.63	10.63
1 year	11.00	11.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.00%
Long Term (7 to 15 yrs.)	12.20	12.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/16/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01874	53.36
Canada	.7874	1.2700
Denmark	.1051	9.5150
France	.1244	8.0375
Germany	.3837	2.6065
Italy	.0006174	1619.80
Japan	.004442	225.13
Mexico	.005814	172.00
Netherlands	.3398	2.9425
Switzerland	.4650	2.1505
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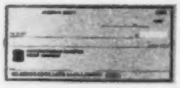

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 26, 1984
VOLUME XXI, NUMBER 12

An Exuberant Economy . . .

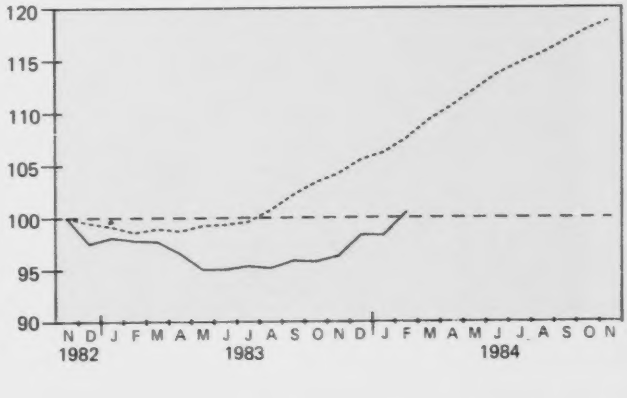
Because of the release of a flurry of upbeat business statistics, fears have mounted that the rate of inflation will accelerate and that the Federal Reserve will be forced to tighten the monetary reins as a result. Not surprisingly, credit market sentiment has deteriorated sharply in recent weeks—sending interest rates higher and long-term investors scurrying for cover. But one wonders if the news is really all that bad, or if the skittishness of the financial markets is more a reflection of fears rather than actual events. Indeed, contrary to conventional wisdom, a case can be made that the recent rise in interest rates may be enough to dampen business activity sufficiently to avoid an overheating of the economy.

Take, for example, the economy. If the credit markets are right about anything, it is their perception that the business expansion remains solidly on track. Despite a modest dip in retail sales in February, month-over-month, almost all other business indicators remain healthy. According to the Commerce Department's "flash" GNP report, the economy expanded at an inflation-adjusted 7.2 percent seasonally adjusted annual rate in the first quarter, well above the five percent annual rate pace of the fourth quarter. This is hardly surprising, since housing starts and auto sales are running at their highest levels since the late 1970s, and solid gains continue to be posted in both total employment and personal incomes. In addition, the business sector is becoming an increasingly important source of economic strength. Industrial output continues to climb, business inventory-to-sales ratios remain at exceptionally low levels and, with capacity utilization rates surpassing 80 percent last month, business capital spending and future spending intentions have moved sharply higher.

. . . Plus A Jawboning Fed . . .

But herein lies the rub. As capacity constraints emerge, not only will the risk of an accelerating rate of inflation increase but, as business outlays expand and cash flow growth slows, corporate America's borrowing needs will begin to revive—adding to upward pressures on interest rates. Already, during the latter half of 1983, business spending for inventories, plant and equipment once more outpaced business cash flow, following a three-quarter period in which cash flow exceeded such outlays by the widest margin in the postwar era. Indeed, the evaporation of the corporate surplus in late 1983 has, as shown in the chart below, prompted a revival of short-term business credit demands. If the past is any guide, that stage of the business cycle has now been reached in which bank loans and commercial paper outstanding will increase—and rapidly at times. This, of course, raises the specter that unless Washington's borrowing needs are reduced, interest rates as well as inflation rates may soon be leaping higher.

SHORT-TERM BUSINESS CREDIT OUTSTANDING:
CURRENT RECOVERY (LINE) VS. AVERAGE OF
PRIOR 7 RECOVERIES (DOT) <TROUGH=100>



Nonetheless, the pessimistic assessment by the credit markets of the future course of both inflation rates and interest rates may be unwarranted. To be sure, over the past three months, producer prices have advanced at an approximately five percent seasonally adjusted annual rate (compared with a less than one percent seasonally adjusted annual rate of rise during the immediately preceding three months)—a development believed by some to be the start of a prolonged, upward trend. However, this may not be the case.

For one thing, severe winter weather had a pronounced effect on food and energy prices. Once

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these two components are eliminated from the price index, the rise in producer prices over the last three months slows from almost five percent to less than three percent—not bad when you consider that the recovery is well into its second year. What is more, despite the rise in commodities prices, it still appears a good bet that the rate of inflation will remain modest in 1984. This is because labor costs are unlikely to rise sharply, given the ongoing commitment of corporate America to cost-cutting and, even when they do, productivity improvements will offset much of their inflation impact. As long as the rise in labor costs per unit of output remains modest, so, too, will the underlying rate of inflation.

. . . Equals Higher Interest Rates

Nor should recent money supply trends add to the bearishness overhanging the credit markets. Both the M1 and M2 money supply numbers are within their specified 1984 target boundaries, a development which would seem to suggest that the Fed has been neither overly generous nor, for that matter, overly restrictive in supplying reserves to the banking system. What all this adds up to is that if some of the exuberance could be taken out of the business expansion, prospects for a prolonged and steep rise in interest rates would abate.

But how can the economy be slowed without

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit	**3/21/84**		
U.S. Gov'ts and Agencies Owned Outright & RPs	158.455	+ .671	+13.203
Loans to Depository Inst.	1.077	+ .191	+ .436
Float	1.091	– .684	– 1.007
Total Reserve Bank Credit	169.316	+ .288	+12.272
Treasury Deposits with			
Federal Reserve Banks	5.327	+ 2.502	+ 1.940
Currency in Circulation	168.551	+ .025	+13.780
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.867	– 1.778	+ 3.271
Member Bank Reserves:	**3/14/84**		
Total Reserves Held	35.680	+ .646	– 2.100
Excess (Deficiency)	.694	– .039	+ .283
Net Borrowed Reserves	.038	+ .372	– .071
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (3/12/84)	536.1	‡	‡
M2 (February '84)	2,221.9	+ 7.3	+ 8.2
M3 (February '84)	2,742.7	+ 8.0	+ 9.0
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/23/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	9.90%	9.90%
* Federal Agencies	10.30	10.65	10.90
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	11.02	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.40	10.72	11.00

‡Finance Company Paper—Prime	
5- 14 days	10.05%
15- 29 days	10.25
30- 59 days	10.15
60- 89 days	10.00
90-179 days	9.90
180-239 days	9.90
240-270 days	9.50

‡* Bankers' Acceptances	
Apr.	10.20%
May	10.20
Jun.	10.20
Jul.	10.30
Aug.	10.30
Sep.	10.25

‡Industrial Paper—Prime	
30- 89 days	10.15%
90-120 days	10.20

†Federal Funds Effective Rate 10.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,436r	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,573r	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	5.0r	7.6	– 1.3
Change in Consumer Prices (new series)*	Feb '84n	4.8%	7.2%	– 1.2%
Change in Producer Prices*	Feb '84	4.8%	7.2%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '84	103,892	103,190	99,172
Unemployment as % of Civilian Labor Force†	Feb '84	7.8%	8.0%	10.4%
Personal Income*	Feb '84n	$ 2,923	$ 2,902r	$ 2,651
Leading Indicators Composite Index (1967=100)†	Jan '84	164.7	162.9	145.2
Industrial Production Index (1967=100) †	Feb '84	159.1	158.0	138.1
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Jan '84	–$ 9.47	–$ 6.74	–$ 3.84
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84	2,197	1,976	1,706
New Construction Expenditures*	Jan '84	$ 281.8	$ 277.8	$ 247.9
Total Business Inventories †	Jan '84	$ 522.7	$ 520.7	$ 507.6
Total Business Sales †	Jan '84	$ 402.0	$ 396.7	$ 345.3

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

the Fed actively tightening the money reins? One method would be for the Fed to initiate a policy of word, rather than deed: namely, jawbone the financial markets to get them, rather than the central bank, to do the unpalatable job of cooling off the economy. And, indeed, by repeatedly warning of the negative effects that a too strong economy will have on inflation and interest rates, Fed Chairman Paul A. Volcker has encouraged the markets to boost yields and thereby depress business activity and stock prices. This was accomplished without the Fed having to alter the rate of growth of money and credit.

The degree of success encountered by these actions in dampening today's business exuberance will largely determine whether or not a rapid runup in interest rates can be avoided this year. And, with Washington's budget deficit running below expectations due to stronger-than-anticipated revenue growth and lower-than-expected spending levels, it is not inconceivable that, with any luck at all, the combination of a slower pace of business and more modest-than-projected Treasury borrowings could keep interest rates from rising too rapidly, thus setting the stage for a third year of economic growth.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/7/84)	142,696	+ 1,146	–16,776
New York City (3/14/84)	29,448	– 35	– 9,276
Commercial Paper (3/14/84)	196,372	+ 3,455	+29,316

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/7/84)	228,384	+ 1,567	NA*
New York City (3/14/84)	59,560	+ 20	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/7/84)	583,124	– 2,228	NA*
New York City (3/14/84)	131,600	+ 799	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/23/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.15%	+ .46	+ 1.35
180-Day Bills†	10.59	+ .47	+ 1.59
Longest Bills†	10.91	+ .53	+ 1.73
Recent Issues:			
$10\frac{7}{8}$s 2/28/86	11.63	+ .51	
$11\frac{1}{4}$s 12/31/87	12.03	+ .61	
$11\frac{3}{4}$s 11/15/93	12.44	+ .26	
12s 8/15/13	12.52	+ .21	
Municipals:			
Bond Buyer–20 Bond Index* (3/22/84)	10.01%	+ .03	+ .86
Blue List Total ($ Million)	$1,432	+$ 23	+ $ 44
30-Day Visible Supply ($ Million)	$2,349	–$ 226	– $2,431
Total	$3,781	–$ 203	– $2,387
Corporates:			
Moody's Aa Composite (3/22/84)	13.35%	+ .12	+ 1.07
30-Day Visible Supply ($ Million)	$ 405	–$3,090	– $ 642
Stocks:			
Dow-Jones Averages:			
Industrials	1,154.84	– 29.52	+ 8.94
Transportation	503.19	– 15.02	– 16.51
Utilities	126.88	– .72	+ .59
65 Stocks	452.67	– 10.81	– 1.05
Standard and Poor's 500 Stocks	156.86	– 2.41	+ 3.49
N.Y.S.E. Composite Index	90.35	– 1.38	+ 2.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	81,040	–11,630	– 3,830

* 46% Taxable equivalent 18.54%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/23/84	Week Ago
Overnight	10.25%	9.88%
1 month	10.63	10.06
3 month	10.75	10.31
6 month	11.06	10.63
1 year	11.56	11.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.20%	12.00%
Long Term (7 to 15 yrs.)	12.30	12.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/23/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01854	53.93
Canada	.7838	1.2758
Denmark	.1033	9.6825
France	.1230	8.1275
Germany	.3794	2.6355
Italy	.0006136	1629.80
Japan	.004418	226.35
Mexico	.005764	173.50
Netherlands	.3363	2.9735
Switzerland	.4591	2.1783
U.K.	1.4283	.7001

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The Manufacturers
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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 2, 1984

VOLUME XXI, NUMBER 13

Where's The Beef?

In the past three months, retail food prices at the nation's grocery stores rose 2.6 percent compared with the previous three months. But while this gain is the steepest in years, it is substantially below the 6.9 percent jump in prices which farmers received for the raw foods needed to produce the finished products. However, over the long run, the reverse has been true. The cost of processing, assembling, transportation and distribution has risen much faster than farm prices, pushing down the farm share of people's food bills and substantially increasing the marketing share.

When this is combined with the change in consumer preferences and the increased desire by families to eat away from home, the divergence between retail and farmgate widens further. Of the $173 billion jump in consumer food costs in the past ten years, the marketing bill was responsible for $141 billion. As a result, the cost of processing and distribution surged to 73 cents of each food dollar spent in 1983, compared with 63 cents in 1973 (see chart). This means that overall food price changes have been influenced less and less by changes in farm prices and more by changes in the cost of labor, packaging, transportation, fuel and advertising, among others.

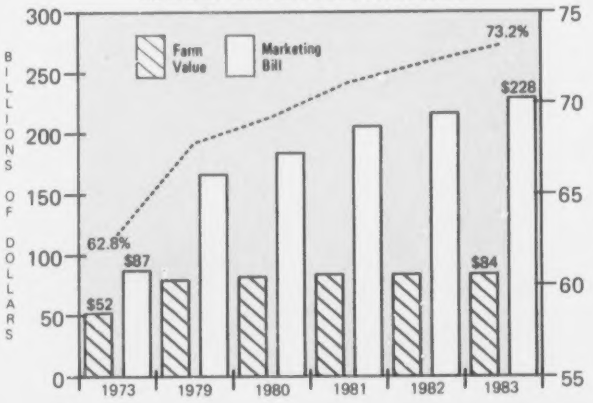
But the rise in marketing costs is not the only culprit behind the widening farm-retail spread. The shift to the away-from-home market—including a doubling in the number of fast food restaurants over the past ten years—and increased preferences for more processed convenience foods are also responsible. In 1973, consumers spent 28 percent of their food budgets on eating outside their homes, but by 1983 this share rose to more than 35 percent.

Not surprisingly, the spread between retail and farmgate is significantly wider in the food away-from-home category owing to higher costs of preparing and serving food. Here, the farm value's share shrank to 16 percent of the check last year, while the marketing portion has more than tripled in dollar terms. The rise in the number of fast food restaurants has been a significant contributor to the widening farm to retail spread, because these outlets are heavy users of packaging materials and are highly labor intensive.

Marketing Takes The Biggest Bite . . .

The marketing value's share varies greatly among different foods depending on the amount of processing needed and the complexities of the distribution process. In general, such animal products as meats, dairy products, poultry and eggs have had the highest ratios of farm value to retail price. By contrast, such highly processed crop products as cereals and bakery goods have the lowest ratios. For example, while 50 to 60 cents of each dollar spent at grocery stores on meat and 70 cents of each dollar spent on eggs goes to the farmer, nearly 90 percent of retail prices of cereal and bakery products and 85 percent of processed fruit and vegetable prices represents processing.

RETAIL FOOD PRICES: FARM AND MARKETING COMPONENTS (BARS) VS. MARKETING COMPONENT AS A % OF RETAIL FOOD PRICES (DOT)



But although there has been a long term decline in farm value's share of the food dollar, in the short run, the marketing portion cushions the wide fluctuations in agricultural prices—up or down. For example, meat prices at grocery stores went up only 4.4 percent between November and February, despite a whopping 21 percent rise at farmgate. On the other hand, egg prices jumped 30 percent at retail while increasing at a slower rate at farmgate. However, this only partially offset the 55 percent surge in egg prices posted in the previous ten months when prices at supermarket counters rose only 20 percent.

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. . . Of Our Food Dollars

The single largest component of every food dollar is the cost of labor. Currently, it accounts for 33 percent, up from 29 percent ten years ago. As in other sectors of the economy, last year's wage increases in the food industry were relatively subdued—advancing 3.8 percent year-over-year—substantially below 1982's 6.2 percent jump. However, the cost of such employee benefits as health insurance and retirement funds has increased at a faster rate than wages and now comprises some 20 percent of total labor costs. In addition, employment in most areas of the food industry has been increasing at a faster pace than in the overall economy. Payrolls at eating and drinking establishments rose an average of five percent per year in the past decade, while employment growth at grocery stores averaged three percent per year. In contrast, all-industry employment expanded only 1.6 percent annually.

However, the number of production workers employed in the manufacturing of food products slipped in 1983 for the fourth year in a row, falling to one of the lowest levels in more than 35 years. This has occurred as a consequence of the implementation of more efficient processing, distributing and packaging techniques. But despite sharply improved productivity in this area over the past decade, most workers were forced to accept lower wages and cuts in benefits in order to avert

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/28/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.318	– .137	+14.943
Loans to Depository Inst.	1.195	+ .118	+ .298
Float	.504	– .587	– 1.449
Total Reserve Bank Credit	168.978	– .338	+13.503
Treasury Deposits with Federal Reserve Banks	4.358	– .969	+ 1.824
Currency in Circulation	168.263	– .371	+13.490
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	117.565	+ 2.690	+ 7.600
	3/28/84		
Member Bank Reserves:			
Total Reserves Held	35.318	– .369	– 1.149
Excess (Deficiency)	.672	– .022	+ .208
Net Borrowed Reserves	.333	– .295	+ .267
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/19/84)	536.0	‡	‡
M2 (February '84)	2,222.1	+ 7.3	+ 8.2
M3 (February '84)	2,743.3	+ 8.1	+ 9.0
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Data unavailable due to revisions.

New York Money Market

Offering Rates 3/30/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.25%	9.35%	9.35%
* Federal Agencies	10.05	10.35	10.50
* Project Notes–Taxfree (46% Taxable Equivalent)	9.81	10.56	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.34	10.58	11.18

‡ Finance Company Paper–Prime	
5- 14 days	10.00%
15- 29 days	10.00
30- 59 days	10.00
60- 89 days	10.00
90-179 days	9.80
180-239 days	9.50
240-270 days	9.50

‡* Bankers' Acceptances	
May	10.18%
Jun.	10.18
Jul.	10.18
Aug.	10.20
Sep.	10.20
Oct.	10.18

‡ Industrial Paper–Prime	
30- 89 days	10.00%
90-120 days	10.05

† Federal Funds	
Effective Rate	10.25%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,436	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,573	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	5.0	7.6	– 1.3
Change in Consumer Prices (new series)*	Feb '84	4.8%	7.2%	– 1.2%
Change in Producer Prices*	Feb '84	4.8%	7.2%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '84	103,892	103,190	99,172
Unemployment as % of Civilian Labor Force†	Feb '84	7.8%	8.0%	10.4%
Personal Income*	Feb '84	$ 2,923	$ 2,902	$ 2,651
Leading Indicators Composite Index (1967=100)†	Feb '84n	165.9	164.8r	147.4
Industrial Production Index (1967=100) †	Feb '84	159.9r	158.0	138.1
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Feb '84n	–$ 10.09	–$ 9.47	–$ 3.37
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84	2,197	1,976	1,706
New Construction Expenditures*	Jan '84	$ 281.8	$ 277.8	$ 247.9
Total Business Inventories †	Jan '84	$ 522.7	$ 520.7	$ 507.6
Total Business Sales †	Jan '84	$ 402.0	$ 396.7	$ 345.3

*Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

further layoffs and plant shutdowns.

Packaging is the second largest marketing cost, accounting for eight percent of consumer food budgets. Last year, spending on packaging materials jumped 4.3 percent primarily due to increased consumer preferences for convenience foods and stepped up traffic at the nation's fast food restaurants. Interestingly, the changing demographic composition of the American population, the rush of women into the labor force, the growing elderly population and the rising number of single-parent households have resulted in an increased appetite for processed convenience foods. The ease of home preparation seems to have outweighed the higher cost.

Recent price trends in the components of the retail food dollar presage another year of relatively modest food price inflation. Agricultural prices are likely to rise only slightly, dampened by an expected rebound in the planted acreage of major crops and stepped up poultry output, which should offset—at least partially—a drop in red meat production. In addition, despite the increased pace of business activity, wage gains should remain moderate (Financial Digest—March 19, 1984) and the stable cost of diesel fuel and heightened competition in both the trucking and railroad industries should help keep transportation costs—representing five percent of consumer food bills—in check. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/14/84)	142.370	– 332	–15,011
New York City (3/21/84)	29,183	– 266	– 9,365
Commercial Paper (3/21/84)	197,488	+ 1,114	+29,368

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/14/84)	228,425	+ 40	NA*
New York City (3/21/84)	60,818	+ 1,258	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/14/84)	583,507	+ 637	NA*
New York City (3/21/84)	132,287	+ 631	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/30/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.96%	– .19	+ 1.04
180-Day Bills†	10.39	– .20	+ 1.21
Longest Bills†	10.66	– .25	+ 1.36
Recent Issues:			
11½s 3/31/86	11.55	NA	
12s 3/31/88	12.07	NA	
11¾s 11/15/93	12.44	–0–	
12s 8/15/13	12.52	--0--	
Municipals:			
Bond Buyer–20 Bond Index* (3/29/84)	9.93%	– .08	+ .55
Blue List Total ($ Million)	$1,515	+$ 83	+ $ 192
30-Day Visible Supply ($ Million)	$2,098	–$ 251	– $2,460
Total	$3,613	–$ 168	– $2,268
Corporates:			
Moody's Aa Composite (3/29/84)	13.30%	– .05	+ .97
30-Day Visible Supply ($ Million)	$1,640	+$1,235	+ $1,468
Stocks:			
Dow-Jones Averages:			
Industrials	1,164.89	+ 10.05	+ 34.86
Transportation	510.19	+ 7.00	+ 2.80
Utilities	126.83	– .05	+ 2.25
65 Stocks	456.65	+ 3.98	+ 10.58
Standard and Poor's 500 Stocks	159.18	+ 2.32	+ 6.22
N.Y.S.E. Composite Index	91.67	+ 1.32	+ 3.64
N.Y.S.E. Avg. Daily Vol. for Week (000's)	80,900	– 140	+ 5,160

* 46% Taxable equivalent 18.39%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/30/84	Week Ago
Overnight	10.31%	10.25%
1 month	10.38	10.63
3 month	10.63	10.75
6 month	10.94	11.06
1 year	11.44	11.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.20%
Long Term (7 to 15 yrs.)	12.45	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/30/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01885	53.05
Canada	.7826	1.2778
Denmark	.1049	9.5350
France	.1254	7.9750
Germany	.3861	2.5898
Italy	.0006179	1618.50
Japan	.004452	224.60
Mexico	.005731	174.50
Netherlands	.3424	2.9205
Switzerland	.4645	2.1528
U.K.	1.4430	.6930

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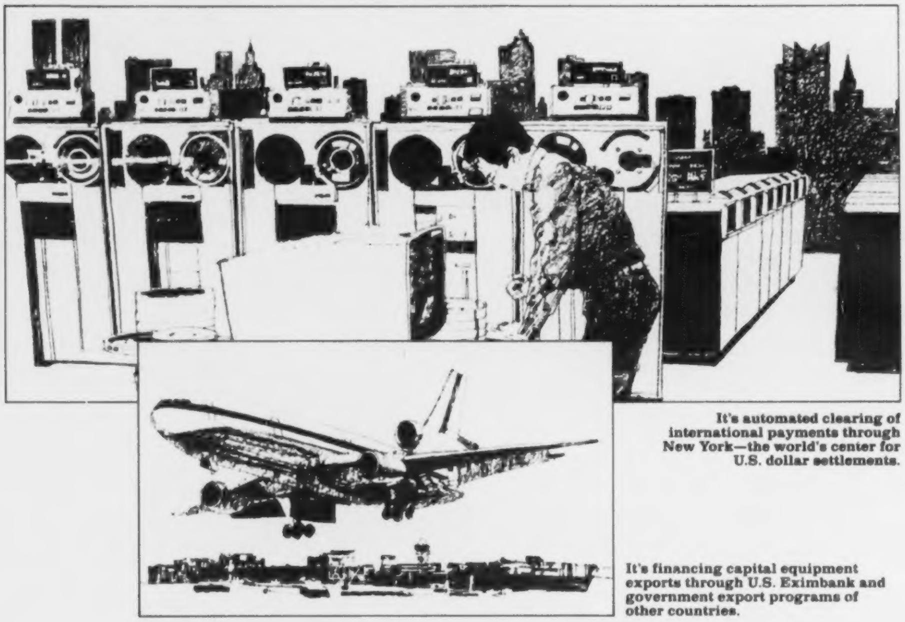

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 9, 1984

VOLUME XXI, NUMBER 14

New York State's Recovery . . .

Buoyed by the national resurgence in business activity, New York State's economy staged a rebound in 1983. Although the shakeout in manufacturing employment continued during 1983, strong employment gains in such service-oriented sectors as trade, finance, insurance, real estate and personal services more than offset the loss in factory jobs. The state gained about 31,000 nonfarm jobs during 1983, recouping most of the 33,000 such jobs lost during the year earlier. For manufacturing industries, however, 1983 marked the fourth consecutive year of decline in employment. The state has lost more than 193,500 factory jobs since 1979, almost 104,000 of them in durable manufacturing industries. Thus, the transition toward a service-based economy in New York State is clearly continuing and the workplace is increasingly being dominated by white-collar positions.

New York City highlights this shift. The 19,000 manufacturing jobs lost in 1983 were more than offset by a gain of 8,000 jobs in finance, 7,000 in retailing and 17,000 in services. Today, the finance, insurance and real estate sectors employ more people than all of the City's manufacturing industries. One in every seven jobs in New York City is now derived from these activities, in sharp contrast with the one in 16 employed in these sectors nationally.

The City's economy was also aided by continued strength in office construction. More new office construction was begun in 1983—some 7.5 million square feet—than in any year since 1970. At the end of 1983, 19 new office buildings containing nearly 12 million square feet of rentable space were under construction. Many are already committed or fully leased, minimizing the threat of a glut of office space. Manhattan's current office vacancy rate, for example, is about half the comparable national rate of 12.4 percent. In 1983, the City hosted a record 17.1 million visitors—2.4 million of them from abroad. They helped boost sales by City retailers from $24.9 billion in 1982 to $26.8 billion in 1983—a gain of eight percent. In 1982, retail sales fell by three percent.

. . . Is Led By Downstate . . .

Manhattan's prosperity is gradually spreading to the outer boroughs. Construction of a 100-acre teleport for satellite antennas and electronic information management is underway on Staten Island. The Navy has also selected Staten Island as the home port for one of its surface action groups. The Port Authority plans to invest $128 million in Hunters Point, Queens, to rejuvenate the decaying Queens waterfront. It is hoped that this project will lure $500 million in private investment to the area. The City Administration also hopes to spur economic development in the outer boroughs by increasing tax exemptions for new investment in commercial or industrial activity in these areas.

The City's suburbs did even better during 1983. Nassau, Suffolk, Westchester, Rockland and Putnam counties gained almost 38,000 jobs during the year, with Nassau and Suffolk counties alone generating 28,000 new jobs. Employment on Long Island set a new record, rising to the million mark for the first time. Employment gains were particularly healthy in services, wholesale and retail trade, but each of the major private sector industries of the Nassau-Suffolk economy posted increases as well. Thus, the downstate suburbs accounted for almost all of the new job growth statewide. Their December unemployment rates were well below the statewide average of 7.0 percent (not seasonally adjusted). Between December, 1982 and December, 1983, jobless rates declined from 6.1 to 5.0 percent in Nassau-Suffolk, from 5.4 to 4.4 percent in Westchester, from 5.6 to 4.8 percent in Rockland and from 5.4 to 4.8 percent in Putnam.

The improved inflation picture also helped to boost suburban consumers' buying power. While consumer price inflation in the New York City region slowed to 4.7 percent in the past year, prices of energy rose even more slowly—affecting favorably the cost of home heating and private transportation, both of which loom large in suburban budgets. Retail sales increased almost 11 percent in the City's suburbs in 1983 over year-ago levels, after rising only six percent in 1982.

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. . . While Upstate Remains Flat

Although unemployment rates also edged lower during 1983 in the upstate labor markets, the economy of central and western New York State can best be described as flat. Defections from the labor force rather than any significant increase in the number of jobs were responsible for the lower rates. This was particularly true in western New York State where job losses were relatively severe.

Western New York State encompasses the Buffalo and Rochester labor markets. Together, these areas lost more than 21,000 jobs last year in the manufacturing sector alone. Total nonfarm job losses amounted to about 14,000 in 1983, less than the loss of 20,000 such jobs experienced in 1982 largely because Buffalo and Rochester were able to generate 9,000 new jobs in retailing and services during 1983. Rochester's manufacturing sector contracted by 12,000 jobs in 1983, while the Buffalo area lost more than 9,000 factory jobs.

On a brighter note, however, there were scattered employment increases in autos and food manufacturing in the Buffalo area. The area's jobless rate dipped below the double-digit level in December, 1983—the first time in more than two years. It peaked at 15.2 percent in November, 1982—the highest jobless rate in the state and one of the highest in the nation. Moreover, in the last year, the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/4/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.000	+ .682	+13.689
Loans to Depository Inst.	1.114	– .081	– .648
Float	.707	+ .226	– .854
Total Reserve Bank Credit	169.737	+ .831	+12.023
Treasury Deposits with			
Federal Reserve Banks	3.754	– .604	– .107
Currency in Circulation	169.026	+ .763	+12.920
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.928	– 2.637	+ 5.478
	3/28/84		
Member Bank Reserves:			
Total Reserves Held	35.343	– .374	– 1.124
Excess (Deficiency)	.771	+ .041	+ .307
Net Borrowed Reserves	.234	+ .232	+ .168

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/26/84)	538.3	+ 8.1	+ 7.7
M2 (February '84)	2,222.0	+ 7.3	+ 8.2
M3 (February '84)	2,743.2	+ 8.1	+ 9.0
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

Offering Rates 4/6/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.76%	9.94%	10.00%
* Federal Agencies	10.04	10.72	11.20
* Project Notes–Taxfree (46% Taxable Equivalent)	10.00	10.37	11.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.40	10.67	11.38

‡Finance Company Paper–Prime	
5- 14 days	10.25%
15- 29 days	10.25
30- 59 days	10.25
60- 89 days	10.15
90-179 days	10.10
180-239 days	9.63
240-270 days	9.63

‡* Bankers' Acceptances	
May	10.20%
Jun.	10.20
Jul.	10.20
Aug.	10.25
Sep.	10.25
Oct.	10.25

‡Industrial Paper–Prime	
30- 89 days	10.25%
90-120 days	10.20

†Federal Funds Effective Rate 10.47%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,436	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,573	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	5.0	7.6	– 1.3
Change in Consumer Prices (new series)*	Feb '84	4.8%	7.2%	– 1.2%
Change in Producer Prices*	Feb '84	4.8%	7.2%	1.2%
Civilian Employment (Thousands of Persons)†	Mar '84n	104,140	103,892	99,316
Unemployment as % of Civilian Labor Force†	Mar '84n	7.8%	7.8%	10.3%
Personal Income*	Feb '84	$ 2,923	$ 2,902	$ 2,651
Leading Indicators Composite Index (1967=100)†	Feb '84	165.9	164.8	147.4
Industrial Production Index (1967=100) †	Feb '84	159.9	158.0	138.1
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Feb '84	–$ 10.09	–$ 9.47	–$ 3.37
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84	2,197	1,976	1,706
New Construction Expenditures*	Feb '84n	$ 285.0	$ 276.0r	$ 243.0
Total Business Inventories †	Jan '84	$ 522.7	$ 520.7	$ 507.6
Total Business Sales †	Jan '84	$ 402.0	$ 396.7	$ 345.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

average workweek of factory employees in the Buffalo area edged up from 40 hours to 42, suggesting that firms may soon begin to hire additional workers. The severe recession put a dent in the inflation rate in the Buffalo area. In 1983, consumer prices increased only 3.7 percent, the smallest increase in 12 years.

Central New York State, which includes the Albany, Binghamton, Syracuse and Utica-Rome labor markets, fared better than western New York State in 1983. Collectively, these labor markets gained about 3,000 nonfarm jobs in 1983. By contrast, in 1982 these areas lost almost 5,000 such jobs. Here, losses in manufacturing, wholesale trade and government were also offset by gains in retail trade, finance and services.

The Poughkeepsie metropolitan area, which encompasses Dutchess County, is the dominant labor market within the Hudson Valley. It remains an island of prosperity in an otherwise flat upstate economy. Its nonfarm employment expanded by about 2,000 jobs in 1983. However, manufacturing employment, which accounts for approximately one-third of its 106,000 employment base, declined one percent in 1983, after posting strong gains both in 1981 and 1982. Poughkeepsie's December, 1983 unemployment rate, 5.0 percent, was among the lowest in the state.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/21/84)	142,132	− 294	−16,488
New York City (3/28/84)	29,186	+ 3	− 9,223
Commercial Paper (3/28/84)	198,940	+ 1,515	+31,268

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/21/84)	231,066	+ 2,641	NA*
New York City (3/28/84)	60,614	− 204	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/21/84)	586,394	+ 2,819	NA*
New York-City (3/28/84)	131,948	− 335	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 4/6/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.66%	− .30	+ 1.06
180-Day Bills†	9.78	− .61	+ .98
Longest Bills†	9.81	− .85	+ .77
Recent Issues:			
11½s 3/31/86	11.68	+ .13	
12s 3/31/88	12.22	+ .15	
11¾s 11/15/93	12.62	+ .18	
12s 8/15/13	12.64	+ .12	
Municipals:			
Bond Buyer–20 Bond Index* (4/5/84)	10.04%	+ .11	+ .81
Blue List Total ($ Million)	$1,592	+ $ 77	+ $ 327
30-Day Visible Supply ($ Million)	$2,265	+ $167	− $1,331
Total	$3,857	+ $244	− $1,004
Corporates:			
Moody's Aa Composite (4/5/84)	13.46%	+ .16	+ 1.32
30-Day Visible Supply ($ Million)	$1,625	− $ 15	+ $ 880
Stocks:			
Dow-Jones Averages:			
Industrials	1,132.22	− 32.67	+ 7.51
Transportation	484.16	− 26.03	− 25.21
Utilities	125.43	− 1.40	+ 1.12
65 Stocks	442.16	− 14.49	− 3.14
Standard and Poor's 500 Stocks	155.48	− 3.70	+ 2.63
N.Y.S.E. Composite Index	89.48	− 2.19	+ 1.61
N.Y.S.E. Avg. Daily Vol. for Week (000's)	91,090	+10,190	+ 19,614

* 46% Taxable equivalent 18.59%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/6/84	Week Ago
Overnight	10.44%	10.31%
1 month	10.63	10.38
3 month	10.88	10.63
6 month	11.13	10.94
1 year	11.63	11.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.35%	12.25%
Long Term (7 to 15 yrs.)	12.60	12.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/6/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01859	53.78
Canada	.7803	1.2816
Denmark	.1035	9.6650
France	.1236	8.0875
Germany	.3803	2.6297
Italy	.0006141	1628.50
Japan	.004430	225.75
Mexico	.005666	176.50
Netherlands	.3371	2.9665
Switzerland	.4589	2.1796
U.K.	1.4232	.7026

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 16, 1984

VOLUME XXI, NUMBER 15

Tax Time . . .

With 1983's income tax filing deadline now only hours away, millions of taxpaying Americans are undoubtedly doing what they always do at this time of year—resolving to do things differently the next time around. What this means, of course, is that efforts to keep a larger chunk of pretax earnings will be intensified, as will those to generate more tax-free income. For some, a partial solution may be the purchase of long maturity, municipal bonds since in recent years the rise in municipal bond interest rates has outpaced the rise in taxable bond yields—widening the pool of individuals who could benefit from the purchase of tax-free bonds.

For others, however, prevailing nontaxable yields may be somewhat disappointing. In recent months, the backup in taxable bond yields has been more pronounced than in the municipal market. This trend will probably not change much in coming months, because dramatically improving state and local finances will no doubt keep a lid on borrowing needs, leaving purchasers to scramble for the available bond supply.

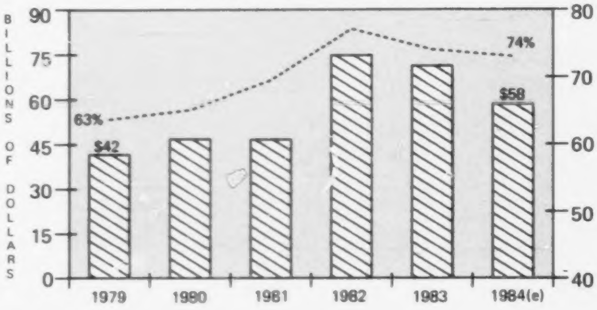
The improvements in state and local finances have been nothing less than dramatic. This is partially because of the fact that these entities, in an attempt to cope with the challenges of recession, reduced Federal grants and escalating costs, sharply increased taxes and scaled back significantly the provision of essential and nonessential services. Indeed, because of actual and looming budget deficits during the 1981-82 recession, not to mention the fact that every state except Vermont has laws barring budget deficits, 38 states raised taxes in 1983, of which 16 hiked income taxes. What is more, with receipts growth sluggish at best, state and local government borrowings soared in 1982-83, with net new borrowings rising above $70 billion in both 1982 and 1983—sending municipal bond interest rates to lofty heights as well.

. . . Heightens Interest . . .

With such states as California and Minnesota experiencing financial difficulties, the combined budget operating surplus often enjoyed by state and local governments (which excludes the activities of their pension funds) vanished in 1982. It slipped into an overall deficit of almost $2 billion—the first state and local red ink total since 1975. Only four years earlier, in fact, the combined operating surplus had hit $10 billion.

But if the slide into deficit was quick, the return to at least some semblance of financial health has been even quicker. With record numbers of people now back at work and corporate profits surging, municipal receipts have begun to balloon. And, with the tax take rising and outlays curbed, the deficit of 1982 was replaced by a record annualized surplus of $20 billion in the fourth quarter of 1983. What is more, if today's receipts and spending trends hold up throughout the entire year, the state and local black ink total could hit $26 billion in 1984. This sum would be equivalent to more than 5½ percent of anticipated total spending—a new record high.

NEW MUNICIPAL BOND ISSUANCE (BAR) VS.
BOND BUYER INDEX AS A % OF
NEW AA UTILITY RATE (DOT)



Not surprisingly, pressures to trim taxes have replaced the need to raise them in states as diverse as New York and Nebraska. So, too, despite a stepped-up pace of public construction activity, the volume of state and local government borrowings has begun to taper off. With restrictions likely to be placed on the use of industrial development bonds, the amount of advance refundings expected to slow, and the treasuries of state and local governments replenished, it appears a good bet that the volume of new state and local bond offerings will fall far short of the record borrowing pace of 1982-83. In the first quarter of 1984, for example, total new bond issues ran at a $58 billion annual rate—well below the $70 billion plus level of 1983.

Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

. . . In State And Local Securities

If this was not sufficient to enhance the strength of the municipal bond market, the downturn in new financing needs comes at a time when investor interest in tax exempts remains extremely brisk. For despite the fact that such traditional institutional purchasers of municipal bonds as commercial banks and property insurance companies are expected to be small net demanders of new offerings in 1984, any emerging slack will be offset by a robust level of individual and municipal bond fund purchases. Indeed, while cash flow difficulties continue to plague many property insurance companies due to rising claims and slow income growth thereby limiting their ability to take down a significant amount of new municipal offerings, and the commercial banks remain relatively unenthusiastic purchasers of new municipals, this does not apply to the individual—and the reasons are not difficult to see.

Although in recent months the rise in taxable bond yields (about 125 basis points) has tended to outdistance the upturn in tax-exempt yields (about 50 basis points), the pretax ratio of nontaxable to taxable yields, currently hovering at around 0.75 percent, is still well above the approximately 0.60 percent ratio prevailing during much of the late 1970s and early 1980s (see chart on page 1). Thus, in the earlier period, when tax exempts were

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/11/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.669	+ .669	+14.181
Loans to Depository Inst.	1.513	+ .399	+ .931
Float	1.336	+ .629	− .907
Total Reserve Bank Credit	171.499	+ 1.712	+13.942
Treasury Deposits with Federal Reserve Banks	3.098	− .656	+ .089
Currency in Circulation	170.362	+ 1.336	+13.105
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.738	+ .810	+ 4.624
Member Bank Reserves:	4/11/84		
Total Reserves Held	36.125	+ .732	+ 2.583
Excess (Deficiency)	.430	− .292	− .133
Net Borrowed Reserves	.925	+ .642	+ 1.331

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/2/84)	533.2	+ 8.1	+ 7.7
M2 (March '84)	2,228.4	+ 5.9	+ 7.8
M3 (March '84)	2,762.4	+ 8.2	+ 9.1
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

Offering Rates 4/13/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.65%	9.70%	9.85%
* Federal Agencies	9.95	10.60	10.95
* Project Notes—Taxfree (46% Taxable Equivalent)	9.81	10.46	11.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.28	10.57	11.05

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.90%	May	10.10%
15- 29 days	10.00	Jun.	10.07
30- 59 days	10.05	Jul.	10.07
60- 89 days	10.10	Aug.	10.13
90-179 days	10.00	Sep.	10.17
180-239 days	9.80	Oct.	10.14
240-270 days	9.50		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	10.20%		
90-120 days	10.20	Effective Rate	10.25%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,436	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,573	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	5.0	7.6	− 1.3
Change in Consumer Prices (new series)*	Feb '84	4.8%	7.2%	− 1.2%
Change in Producer Prices*	Mar '84n	6.0%	4.8%	− 1.2%
Civilian Employment (Thousands of Persons) †	Mar '84	104,140	103,892	99,316
Unemployment as % of Civilian Labor Force †	Mar '84	7.8 %	7.8 %	10.3%
Personal Income*	Feb '84	$ 2,923	$ 2,902	$ 2,651
Leading Indicators Composite Index (1967=100) †	Feb '84	165.9	164.8	147.4
Industrial Production Index (1967=100) †	Mar '84n	160.7	160.0r	140.0
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.7[illegible]
U.S. Merchandise Trade Balance †	Feb '84	−$ 10.09	−$ 9.47	−$ 3.37
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84	2,197	1,976	1,706
New Construction Expenditures*	Feb '84	$ 295.0	$ 276.0	$ 243.0
Total Business Inventories †	Feb '84n	$ 527.0	$ 517.8r	$ 507.7
Total Business Sales †	Feb '84n	$ 399.5	$ 400.9r	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

yielding about 5½ to 6½ percent and taxable bond yields were closing in on ten percent, it made sense only for those high-income households paying marginal Federal income tax rates of 40 percent or better to purchase municipal bonds.

However, at today's relative bond yields, even households paying marginal tax rates as low as 25 percent would enjoy a yield advantage when purchasing tax-exempt bonds. What is more, just about one year ago, when the ratio of tax exempt to taxable yields stood at almost 85 percent, taxpayers with adjusted gross incomes as low as $9,500 would have found the purchase of municipal bonds preferable to taxables—at least from an after-tax yield standpoint.

One outcome of all this has been the growing role of the individual investor, and the tax-exempt bond funds which service them, in the municipals market. Purchases by individual investors of municipal securities have recently accounted for about 40 percent of all net new offerings, up from about 15 percent in the late 1970s. And, when this is added to the purchases of the tax-exempt bond funds (whose total assets have quintupled in the last two years to more than $36 billion), the lion's share of municipal offerings is accounted for—and this should help to keep the lid on state and local borrowing costs for awhile.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/28/84)	143,268	+ 1,138	–14,881
New York City (4/4/84)	29,315	+ 130	– 8,072
Commercial Paper (4/4/84)	199,847	+ 907	+33,833

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/28/84)	231,224	+ 154	NA*
New York City (4/4/84)	61,308	+ 694	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/28/84)	587,260	+ 718	NA*
New York City (4/4/84)	134,795	+ 2,864	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 4/13/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.00%	+ .34	+ 1.63
180-Day Bills†	10.34	+ .56	+ 1.71
Longest Bills †	10.62	+ .81	+ 1.75
Recent Issues:			
11½s 3/31/86	11.41	– .27	
12s 3/31/88	11.95	– .27	
11¾s 11/15/93	12.34	– .28	
12s 8/15/13	12.38	– .26	
Municipals:			
Bond Buyer- 20 Bond Index* (4/12/84)	9.97%	– .07	+ .93
Blue List Total ($ Million)	$1,600	+ $ 8	+ $489
30-Day Visible Supply ($ Million)	$2,438	+ $173	– $898
Total	$4,038	+ $181	– $409
Corporates:			
Moody's Aa Composite (4/12/84)	13.32%	– .14	+ 1.33
30-Day Visible Supply ($ Million)	$ 785	– $840	+ $ 58
Stocks:			
Dow-Jones Averages:			
Industrials	1,150.13	+ 17.91	– 21.12
Transportation	497.33	+ 13.17	– 32.61
Utilities	125.34	– .09	– .72
65 Stocks	449.40	+ 7.24	– 12.61
Standard and Poor's 500 Stocks	157.31	+ 1.83	– 1.44
N.Y.S.E. Composite Index	90.50	+ 1.02	– .68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,608	– 2,482	+ 230

* 46% Taxable equivalent 18.46%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/13/84	Week Ago
Overnight	10.00%	10.44%
1 month	10.44	10.63
3 month	10.69	10.88
6 month	11.00	11.13
1 year	11.38	11.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.35%
Long Term (7 to 15 yrs.)	12.50	12.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/13/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01867	53.56
Canada	.7827	1.2776
Denmark	.1039	9.6265
France	.1241	8.0575
Germany	.3821	2.6170
Italy	.0006161	1623.00
Japan	.004461	224.15
Mexico	.005571	179.50
Netherlands	.3386	2.9530
Switzerland	.4604	2.1720
U.K.	1.4320	.6983

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The Manufacturers
Hanover
Financial
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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 23, 1984
VOLUME XXI, NUMBER 16

U.S. Trade Deficits . . .

Sometimes lost in the flurry of news about the tidal wave of imports into the United States, the loss of U.S. export competitiveness and the resulting lofty trade deficits is just why this has happened. Last year the U.S. experienced its third consecutive record merchandise trade deficit—$69 billion (f.a.s. exports/c.i.f. imports basis)—and this year the trade deficit is expected to exceed $100 billion. These record deficits owe about as much to the surge in imports, which rose 5.9 percent in 1983 compared with 1982, as to the decline in our exports, which fell 5.5 percent in the same period.

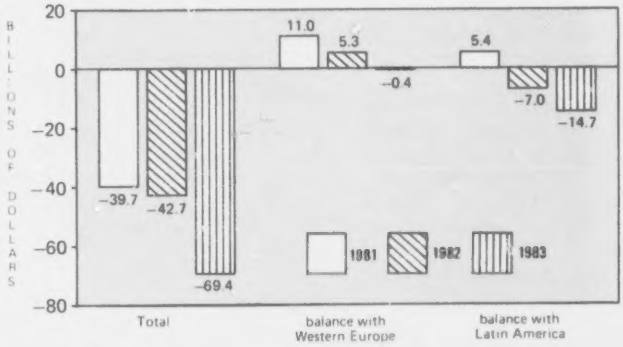
In dollar terms U.S. foreign trade peaked in 1981. Exports in that year reached $234 billion while imports rose to $273 billion. In the last two years, however, sluggish growth in Western Europe, the buoyant strength of the dollar and austere import restrictions by some indebted developing countries, particularly in Latin America, have all contributed to this country's present foreign trade malaise. The strength of the dollar, whose value increased on a trade-weighted basis by 26 percent between the end of 1981 and the end of 1983, has encouraged imports into this country while making our exports less competitive. But it is not the only cause of our worsening trade position.

The structure of U.S. exports is heavily skewed toward manufactured goods. Some two-thirds of all U.S. exports are classified as manufactures and much of this is composed of sophisticated products commonly designated as "high technology"—aircraft, computers and other complex machines. The time lapse between the order and the delivery of such items is usually considerable. Capital goods such as these, along with many other U.S. exports, are sensitive to the state of the economic environment outside of the United States. Cyclical upswings abroad since the second World War have tended to lag behind recoveries in the United States. Consequently, in the first year of an economic upturn in this country exports grow only slowly, if at all, while imports surge in response to revived domestic demand. This pattern has been characteristic of this economic recovery in the U.S. as well, but this time the pattern has been exaggerated. Although U.S. exports fell in real terms by 5.5 percent last year, imports were up by 11.4 percent. Much of this strength in imports is attributable to the vigor of the U.S. recovery as well as its clear antecedence to the recoveries of our trading partners.

. . . Stem From Several Causes . . .

Although U.S. trade deficits have increased worldwide, two areas of traditional U.S. export strength have become pockets of pronounced trade deterioration, each with different causes but similar effects. Western Europe bought over $65 billion in U.S. exports in 1981—28 percent of all U.S. merchandise trade exports; last year this had fallen to $56 billion. In the same two years U.S. imports from Western Europe rose from $54 billion to over $56 billion generating the first trade deficit with Western Europe since the second World War (see chart). The relative real growth differentials between the United States and the economies of Western Europe account for much of the strong retrogression in U.S. exports to that area. While real growth in the United States was 3.4 percent in 1983, year-over-year Western European growth scarcely exceeded 1.5 percent, less than half of that of this country.

U.S. MERCHANDISE TRADE BALANCE: 1981 TO 1983
TOTAL VS. SELECTED REGIONS



What is more, the export sectors of most European countries contribute much more to GNP growth than in the U.S.—and domestic demand plays a lesser role. For example, whereas in the U.S. exports in the last ten years averaged about seven percent of GNP, in Western Germany exports were equivalent to 24 percent of GNP and in the Netherlands 43 percent. Consequently, with lower rates of

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economic growth, domestic demand tends to fall more sharply than it does in the United States while at the same time the pressure to export to stimulate growth is sharper. And certainly these tendencies have been enhanced because the strength of the dollar has worked in the same direction.

The reason for the deterioration of the U.S. trade position in Latin America is quite different. As a consequence of sharply rising global interest rates as well as a sluggish global economic environment, many developing countries, including the principal nations of Latin America, were forced to slash imports from all of their trading partners beginning in 1982. The United States, which in 1981, sent 17 percent of its exports to Latin America, was one of the principal victims of these cuts. Between 1981 and 1983 U.S. exports to Latin America fell from $39 billion to $23 billion, a plunge of over 40 percent. In the same period U.S. imports from Latin America rose from $34 billion to $38 billion reversing a comfortable U.S. trade surplus of $5 billion to a deficit of $15 billion.

Several of the Latin American nations were able to increase their exports to the United States substantially. For example, U.S. imports from Brazil increased by 11 percent between 1981 and 1983 and Mexican exports to the U.S. over 21 percent in the same two years. Yet in the same period U.S. exports to these countries fell by

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/11/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.669	+ .669	+14.181
Loans to Depository Inst.	1.513	+ .399	+ .931
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Currency in Circulation	170.362	+ 1.336	+13.105
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.738	+ .810	+ 4.624
	4/11/84		
Member Bank Reserves:			
Total Reserves Held	36.125	+ .732	+ 2.583
Excess (Deficiency)	.430	– .292	– .133
Net Borrowed Reserves	.925	– .642	+ 1.331
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (4/9/84)	536.4	+ 7.2	+ 7.7
M2 (March '84)	2,228.4	+ 5.9	+ 7.8
M3 (March '84)	2,762.4	+ 8.2	+ 9.1
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 4/19/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	9.85%	10.00%
* Federal Agencies	9.90	10.35	11.05
* Project Notes–Taxfree (46% Taxable Equivalent)	9.91	10.19	11.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.55	10.90	11.30

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	10.35%	May	10.45%
15- 29 days	10.35	Jun.	10.45
30- 59 days	10.35	Jul.	10.45
60- 89 days	10.25	Aug.	10.55
90-179 days	10.25	Sep.	10.55
180-239 days	10.00	Oct.	10.50
240-270 days	10.00		

‡Industrial Paper–Prime			
30- 89 days	10.23%	†Federal Funds	
90-120 days	10.25	Effective Rate	10.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84n	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84n	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84n	6.3	5.0	2.6
Change in Consumer Prices (new series)*	Feb '84	4.8%	7.2%	– 1.2%
Change in Producer Prices*	Mar '84	6.0%	4.8%	– 1.2%
Civilian Employment (Thousands of Persons)†	Mar '84	104,140	103,892	99,316
Unemployment as % of Civilian Labor Force†	Mar '84	7.8%	7.8%	10.3%
Personal Income*	Mar '84n	$ 2,941	$ 2,927r	$ 2,670
Leading Indicators Composite Index (1967=100)†	Feb '84	165.9	164.8	147.4
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Feb '84	–$ 10.09	–$ 9.47	–$ 3.37
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84n	1,638	2,231r	1,592
New Construction Expenditures*	Feb '84	$ 295.0	$ 276.0	$ 243.0
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

33 percent and 49 percent respectively. Clearly, the improvement so far in these countries' trade positions owe much more to import controls than to export growth.

. . . And Improvement Will Be Slow

It is clear that the mature industrialized economies of Western Europe have been able to respond to the opportunity presented to them by the earlier economic recovery in the United States and by the competitive edge which a strong U.S. currency gave to their exports; Latin America, on the other hand, has had to adopt defensive policies of import austerity even at the cost of much reduced growth in order to preserve valuable foreign exchange for debt repayment.

It is likely that the forces causing the deterioration of the U.S. trade position in Western Europe will ease within the near future as the nascent recoveries of these economies strengthen and the demand for imports respond. Indeed, this year overall real economic growth in Western Europe is expected to average 2.5 percent with several countries exceeding the average and with even higher rates of growth in 1985. What is more, strong growth in Canada and Japan, our two chief trading partners, is also expected to help U.S. exports this year and next. Significant improvement in our trade balance with Latin America, however, will take longer. It is likely that many of these countries may have to pursue policies of import restraint for some time to come. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/4/84)	142,350	– 945	–11,913
New York City (4/4/84)	29,315	+ 130	– 8,072
Commercial Paper (4/4/84)	199,847	+ 907	+33,833

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/84)	233,045	+ 1,812	NA*
New York City (4/4/84)	61,308	+ 694	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/84)	591,159	+ 3,901	NA*
New York City (4/4/84)	134,795	+ 2,864	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Thursday 4/19/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.07%	+ .07	+ 1.77
180-Day Bills†	10.45	+ .11	+ 1.85
Longest Bills†	10.92	+ .30	+ 2.07
Recent Issues:			
11 1/2s 3/31/86	11.66	+ .25	
12s 3/31/88	12.24	+ .29	
11 3/4s 11/15/93	12.70	+ .36	
12s 8/15/13	12.74	+ .36	
Municipals:			
Bond Buyer–20 Bond Index*	9.89%	– .08	+ .80
Blue List Total ($ Million)	$1,511	– $89	+ $ 185
30-Day Visible Supply ($ Million)	$2,504	+ $66	– $1,617
Total	$4,015	– $23	– $1,432
Corporates:			
Moody's Aa Composite (4/18/84)	13.47%	+ .15	+ 1.42
30-Day Visible Supply ($ Million)	$ 725	– $60	– $200
Stocks:			
Dow-Jones Averages:			
Industrials	1,158.08	+ 7.95	– 38.22
Transportation	500.82	+ 3.49	– 26.42
Utilities	126.69	+ 1.35	– .48
65 Stocks	452.77	+ 3.37	– 14.38
Standard and Poor's 500 Stocks	158.02	+ .71	– 2.40
N.Y.S.E. Composite Index	90.89	+ .39	– 1.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,343	– 5,265	– 14,397

* 46% Taxable equivalent 18.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 4/19/84	Week Ago
Overnight	10.63%	10.00%
1 month	10.75	10.44
3 month	11.06	10.69
6 month	11.38	11.00
1 year	11.81	11.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.25%
Long Term (7 to 15 yrs.)	12.75	12.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/19/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01848	54.10
Canada	.7808	1.2807
Denmark	.1026	9.7500
France	.1226	8.1575
Germany	.3775	2.6490
Italy	.0006108	1637.30
Japan	.004457	224.38
Mexico	.005587	179.00
Netherlands	.3346	2.9890
Switzerland	.4561	2.1923
U.K.	1.4190	.7047

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The Manufacturers Hanover Financial Digest

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 30, 1984
VOLUME XXI, NUMBER 17

The U.S. Demographic Picture . . .

When anticipating longer-term business prospects in general and consumer tastes in particular, one important factor to consider is the changing demographic composition of the U.S. population. And, although future economic and political forces have not yet been determined, the structure of the American population in the latter part of the 1980s and 1990s has, to a large extent, already been formed. The youth market will cease to expand at its once unprecedented pace, and the aging of America will pick up speed considerably in the next decade and a half. While the median age of Americans was 30 in 1980, by the year 2000, half the population is expected to be over 36.

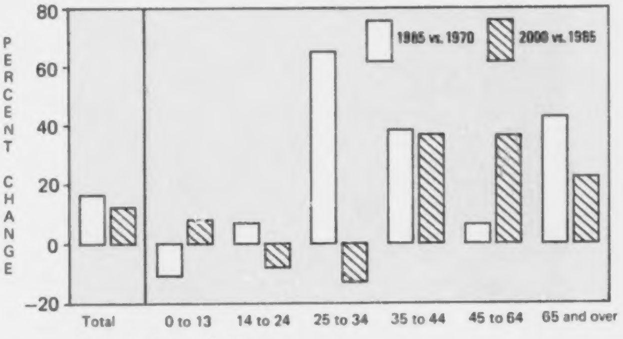
The country's most dominant and influential age group has been the postwar "baby boom" generation. Swelling elementary school enrollments in the 1950s, college classes in the 1960s and the job markets in the 1970s, they are now concentrated in the 25-34 year old bracket. This group's ranks have grown by nearly two thirds since 1970 to 40.2 million in 1983 (see chart), representing 17.2 percent of the population. What is more, the recently revived popularity of marriage and starting families, coupled with the large number of women of childbearing age have resulted in what demographers have called the "baby boom echo."

But this is by no means another baby boom. The number of children born to women of childbearing age—at 1.84—is only about one half that of the late 1950s, when it peaked at 3.71 and is still well below the rates of the 1960s. Mostly because of the sharply increased numbers of potential parents, the number of babies born each year between 1975 and 1982 has risen by an average of about 2.5 percent.

. . . Is Rapidly Changing . . .

But in 1983, for the first time in eight years, the number of babies born declined—and this may be the start of a new trend. Reflecting primarily the aging of the population and the decline in the number of women in their prime childbearing years, the number of babies born dropped by 2.5 percent from 1982's 3.7 million. To be sure, the number of women of childbearing age (15-44) continued to rise, but most importantly, the number of women 15-24 years old—who typically account for nearly half of all births—declined by 1.5 percent. The fertility rates of women in their early thirties have been rising, and their numbers are expected to grow by 1.4 million by 1990—resulting in a higher number of babies born to this group. But this may be offset by the 1.6 million women drop in the 20-29 cohort who typically have fertility rates double those of the 30-34 group.

PERCENT CHANGE IN POPULATION BY AGE BRACKETS



Source: Bureau of the Census

As the baby boomers mature, the rate of growth of the 25-34 year old group will slow to less than one percent per year in the second half of this decade. It had been growing at a torrid 3.3 percent annual growth over the last ten years. Their ranks are expected to actually contract by more than 16 percent in the next decade. But, in turn, between now and the year 2000, the number of 35-44 year olds will expand by 50 percent and the size of the 45-54 year old cohort will advance by two thirds—with most of this jump taking place in the next decade. So the average American is getting older, more productive and more affluent, as an increasingly larger number of Americans are moving into their peak earning years.

. . . Providing New Markets . . .

To reach these markets, businessmen are starting to turn away from their long emphasis on youth. The cosmetics companies are introducing new products

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for the mature skin and hair. Apparel makers are showing goods for those older men who may need some extra room in their clothes. And fast food restaurants, while not abandoning the youth market, have recently implemented advertising campaigns to attract older customers. What is more, several magazines have emerged specifically designed for the over-50 set.

But while we are fast on the road to becoming a middle-aged nation, we will not be a nation of elders until well into the next century. Nevertheless, even today our nation's elderly represent an important segment of the population. Growing more than twice as fast as the population as a whole in the past 25 years, this group will add another 4.4 million people to its ranks by the end of this decade, and a further 3.2 million by the year 2000. At that time, it is expected to represent 13 percent of the population.

. . . For Many Industries

Unfortunately, this seems to be the most misunderstood segment of the population. Although there are numerous complaints about retirees' inability to live on fixed incomes, the latest study by the U.S. Bureau of the Census shows that in general they are not as badly off as many people may think. An examination of annual per capita income of the 17 million households in the 65-plus category reveals some startling facts. While household incomes of those over 65 were only slightly more than half of the U.S. average, their per capita after-tax income

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

		$ Change Since	
	Week Ending 4/25/84	Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	165.533	+ 4.552	+18.390
Loans to Depository Inst.	1.713	+ .962	+ .542
Float	.764	+ .146	– .960
Total Reserve Bank Credit	177.608	+ 6.095	+18.008
Treasury Deposits with Federal Reserve Banks	8.607	+ 4.643	+ 4.442
Currency in Circulation	170.720	– .107	+14.150
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.193	+ .142	+ 2.604
Member Bank Reserves:	4/25/84		
Total Reserves Held	36.807	+ .713	+ 1.809
Excess (Deficiency)	.468	+ .136	+ .009
Net Borrowed Reserves	1.046	+ .023	+ .908
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (4/16/84)	535.9	+ 6.3	+ 7.7
M2 (March '84)	2,228.6	+ 5.9	+ 7.8
M3 (March '84)	2,764.0	+ 8.5	+ 9.1
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

Offering Rates 4/27/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.50%	9.75%	10.00%
* Federal Agencies	9.95	10.65	10.95
* Project Notes–Taxfree (46% Taxable Equivalent)	10.56	10.83	11.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.47	10.82	11.25

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.90%	May	10.15%
15- 29 days	10.10	Jun.	10.18
30- 59 days	10.20	Jul.	10.22
60- 89 days	10.20	Aug.	10.27
90-179 days	10.10	Sep.	10.35
180-239 days	10.00	Oct.	10.28
240-270 days	10.00		

‡Industrial Paper–Prime		†Federal Funds	
30- 89 days	10.15%		
90-120 days	10.20	Effective Rate	10.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.3	5.0	2.6
Change in Consumer Prices (new series)*	Mar '84n	2.4%	4.8%	1.2%
Change in Producer Prices*	Mar '84	6.0%	4.8%	– 1.2%
Civilian Employment (Thousands of Persons)†	Mar '84	104,140	103,892	99,316
Unemployment as % of Civilian Labor Force†	Mar '84	7.8%	7.8%	10.3%
Personal Income*	Mar '84	$ 2,941	$ 2,927	$ 2,670
Leading Indicators Composite Index (1967=100)†	Feb '84	165.9	164.8	147.4
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Feb '84n	$ 6.61	$ 4.47r	$ 0.74
U.S. Merchandise Trade Balance †	Mar '84n	–$ 10.26	–$ 10.09	–$ 3.70
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84	1,638	2,231	1,592
New Construction Expenditures*	Feb '84	$ 295.0	$ 276.0	$ 243.0
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

was nearly $300 greater than for the population as a whole. It exceeded that of all other age groups except those in their prime middle years—the 50-64 year olds.

Even more important for business is the fact that the elderly have the highest per capita discretionary income—55 percent above the national average. Their total discretionary income of $33.6 billion in 1980 was equal to that of the 25-34 year olds, which included nearly 30 percent more households. The primary reason for this is their lower cost of such necessities as housing. In 1980, more than 45 percent of households headed by a person over 65 owned a home with the mortgage completely paid off. In contrast, for those families where the head of household was between 50 and 59 years old, only 25 percent owned their homes mortgage-free. Those elderly who are still financing their homes probably have much lower monthly payments than their younger neighbors who bought homes recently.

The leisure-time industries have already noticed the potential of this market. Realizing that the elderly have the money, time and desire to travel, vacations are not promoted exclusively by bikinis anymore, as the older set seems to be prime customers for cruises and travel. Builders in Florida, California, Arizona, Texas and New Jersey have benefited from the influx of retirees into these states. They have built retirement communities for those who are socially active and sports-oriented.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/11/84)	141,736	– 681	–13,139
New York City (4/18/84)	28,588	– 17	– 7,389
Commercial Paper (4/18/84)	205,426	+ 4,074	+37,644

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/11/84)	232,788	– 186	NA*
New York City (4/18/84)	61,979	+ 799	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/11/84)	589,747	– 1,579	NA*
New York City (4/18/84)	134,648	+ 2,373	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 4/27/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.95%	– .12	+ 1.65
180-Day Bills†	10.45	–0–	+ 1.97
Longest Bills†	11.00	+ .08	+ 2.37
Recent Issues:			
11 3/4s 4/30/86 (When Issued)	11.85	NA	
12s 3/31/88	12.25	+ .01	
11 3/4s 11/15/93	12.75	+ .05	
12s 8/15/13	12.80	+ .06	
Municipals:			
Bond Buyer—20 Bond Index* (4/26/84)	9.94%	+ .05	+ 1.12
Blue List Total ($ Million)	$1,585	+ $ 74	+ $ 121
30-Day Visible Supply ($ Million)	$2,523	+ $ 19	– $1,714
Total	$4,108	+ $ 93	– $1,593
Corporates:			
Moody's Aa Composite (4/26/84)	13.61%	+ .14	+ 1.63
30-Day Visible Supply ($ Million)	$1,705	+ $980	+ $ 930
Stocks:			
Dow-Jones Averages:			
Industrials	1,169.07	+ 10.99	– 57.13
Transportation	497.74	– 3.08	– 27.20
Utilities	125.39	– 1.30	– 3.02
65 Stocks	453.94	+ 1.17	– 20.01
Standard and Poor's 500 Stocks	159.89	+ 1.87	– 4.53
N.Y.S.E. Composite Index	91.94	+ 1.05	– 2.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	86,146	+ 2,803	– 15,092

* 46% Taxable equivalent 18.41%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/27/84	Week Ago
Overnight	10.38%	10.63%
1 month	10.56	10.75
3 month	10.88	11.06
6 month	11.19	11.38
1 year	11.69	11.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.55%	12.50%
Long Term (7 to 15 yrs.)	12.80	12.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/27/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01851	54.02
Canada	.7811	1.2803
Denmark	.1007	9.9275
France	.1208	8.2800
Germany	.3707	2.6975
Italy	.0005970	1675.00
Japan	.004420	226.23
Mexico	.005587	179.00
Netherlands	.3289	3.0405
Switzerland	.4500	2.2223
U.K.	1.4032	.7127

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MHMC marketing capabilities allow us to tailor commitments to the specific needs of both institutional and capital investors, whether it is the sale of residential loans in the secondary market or passthroughs of our mortgage backed securities.

Our mortgage servicing portfolio, now over $9 billion, continues to grow through mortgage originations and the acquisition of servicing from other lenders.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 7, 1984

VOLUME XXI, NUMBER 18

The Recovery Is Solidly On Track . . .

Depending on whom you talk to, the economy is either dangerously overheating or stalling. Some analysts point to the 8.3 percent seasonally adjusted annual rate rise in the first quarter's GNP, stepped-up capacity utilization rates and the sharp runup in commodities prices as proof that inflation has been reignited and will worsen before long. Others point to March's sag in housing starts and retail sales, not to mention the 1.1 percent month-over-month drop in the index of the leading indicators. They say that the current expansion has reached its peak.

But neither of these extremes seems to be the case. The economic recovery should remain solidly on track in 1984. However, as is typical of the second year following the trough of a recession, the pace of business activity should settle down to a much less dramatic rate of growth than we have seen so far. Consumer spending is likely to recede as the main propellant behind the expansion, and business will provide the main impetus from now on. And, if the latest capital spending intentions reported by the Commerce Department materialize, inflation-adjusted business investment may post its largest year-over-year increase in almost 20 years—advancing by 12 percent in 1984.

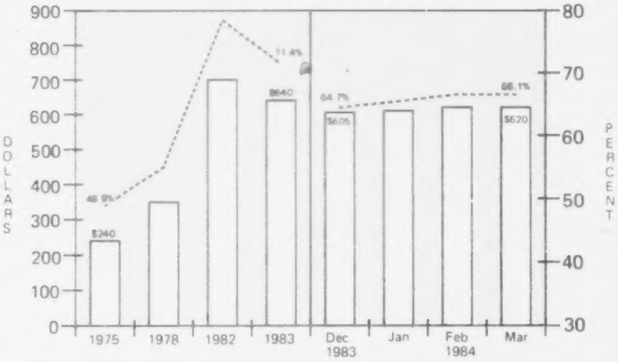
The decline in the index of the leading economic indicators does not necessarily forebode an imminent recession. In fact, until March, this index had posted its longest, uninterrupted upward climb in the postwar period. With only one exception, this index registered at least one month-over-month drop within the first year of recovery from preceding postwar recessions. By the first year and a half of recovery, all but one posted at least two month-over-month declines without signaling the onset of recession. But what they did foreshadow was a slowdown in the pace of business to a more sustainable rate.

For example, residential construction, which along with the automobile sector has so far provided the main charge to this recovery, is likely to slow. Rising interest rates will dampen the increase in housing starts in the next several months, thus narrowing the year-over-year gains. This is because higher rates will make homes more expensive to build and to buy than last year—pricing out a larger segment of potential homebuyers (see chart).

. . . Despite Some Static . . .

To be sure, the first quarter's jump in the "real" GNP overstated the actual strength of the economy. This is because a good-sized chunk of the overall top-line gain stemmed from a rapid and partially unintended, buildup in nonfarm inventories. When this inventory investment is excluded, economic growth was much more modest. Adjusting for the effects of Washington's Payment-in-Kind program, which raised farm inventories by $9.3 billion and lowered government nondefense purchases by the same amount, the resulting final sales rose 4.8 percent in the first quarter. This is only slightly better than the previous quarter's 4.6 percent advance.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS.
% OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY
A NEW HOME (DOT)



Another jump in inventories of similar magnitude in the current quarter is highly unlikely as production more closely tracks the trend in final sales. For one thing, as long as the cost of carrying excess stocks remains at today's lofty heights, businessmen are likely to err on the side of caution. For another, some automobile manufacturers will curtail operations in the second quarter, due to early model changeovers. As a result, automobile production

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is expected to run well below the pace of sales, portending a decline in new car stocks. Furthermore, retailers of soft goods, who restocked their warehouses after the robust holiday season in anticipation of continued strong sales will order less merchandise in the current quarter. This caution arises from the unexpectedly steep, partially weather induced, 1.9 percent drop in sales since January.

On the other hand, several indicators point to further growth in the economy. As long as total employment and personal incomes continue to expand, so too will consumer spending. With individual income tax refunds now approaching last year's record payout pace and savings accounts being replenished, these sources of funds should further bolster consumer spending through the spring. The latest monthly survey of purchasing managers of 250 major manufacturing concerns reveals that employment, production and incoming new orders continue to move ahead, although the rate of increase is slowing. In March, the percentage of companies reporting delivery delays rose to the highest level in almost five years. This indicates an increasingly "busy" economy, as a lengthening in delivery times occurs when companies cannot keep up with shipping dates required by customers.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/2/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	170.301	+ 4.768	+21.289
Loans to Depository Inst.	1.029	– .684	+ .104
Float	.566	– .268	– 1.702
Total Reserve Bank Credit	181.752	+ 4.074	+19.528
Treasury Deposits with Federal Reserve Banks	15.467	+ 6.860	+ 9.614
Currency in Circulation	170.459	– .261	+14.703
Gov'ts held for Foreign Acct. by F. R. Banks (End-of-Week)	115.369	+ 1.176	+ 4.488
Member Bank Reserves:	4/25/84		
Total Reserves Held	36.932	+ .837	+ 1.934
Excess (Deficiency)	.561	+ .231	+ .102
Net Borrowed Reserves	.953	– .072	+ .815

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/23/84)	532.2	+ 4.3	+ 7.6
M2 (March '84)	2,228.8	+ 6.0	+ 7.8
M3 (March '84)	2,765.6	+ 8.7	+ 9.2
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 5/4/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	10.05%	10.20%
* Federal Agencies	10.50	10.65	11.40
* Project Notes—Taxfree (46% Taxable Equivalent)	10.19	10.56	11.57
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.70	11.10	11.70

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.85%	Jun.	10.40%
15- 29 days	10.05	Jul.	10.44
30- 59 days	10.25	Aug.	10.50
60- 89 days	10.25	Sep.	10.62
90-179 days	10.15	Oct.	10.62
180-239 days	10.00	Nov.	10.54
240-270 days	10.00		

‡Industrial Paper—Prime			
30- 89 days	10.20%	†Federal Funds	
90-120 days	10.30	Effective Rate	10.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.3	5.0	2.6
Change in Consumer Prices (new series)*	Mar '84	2.4%	4.8%	1.2%
Change in Producer Prices*	Mar '84	6.0%	4.8%	– 1.2%
Civilian Employment (Thousands of Persons)†	Apr '84n	104,402	104,140	99,606
Unemployment as % of Civilian Labor Force†	Apr '84n	7.8%	7.8%	10.2%
Personal Income*	Mar '84	$ 2,941	$ 2,927	$ 2,670
Leading Indicators Composite Index (1967=100)†	Mar '84n	165.5	167.3r	150.2
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Feb '84	$ 6.61	$ 4.47	$ 0.74
U.S. Merchandise Trade Balance †	Mar '84	–$ 10.26	–$ 10.09	–$ 3.70
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84	1,638	2,231	1,592
New Construction Expenditures*	Mar '84n	$ 295.6	$ 292.0r	$ 241.9
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . In The Economic Statistics

But this is unlikely to strain capacity to the point of rekindling inflation anytime soon. While in previous recoveries, price increases accelerated as capacity utilization rates approached 85 percent, this time around it can be pushed further. To retain competitiveness with foreign-made goods, plants were either modernized or closed, obsolete equipment replaced and break-even points lowered. Now, businessmen are investing in more structures to increase capacity, in contrast with last year's experience when outlays were earmarked for equipment needed to improve productivity and energy efficiency. In the first quarter, business-fixed investment on nonresidential structures jumped a whopping 26 percent at a seasonally adjusted annual rate.

Furthermore, because of the still relatively high level of unemployment, competition for skilled labor is not pushing wages higher. Although the unemployment rate remained unchanged at 7.8 percent of the labor force in April, the number of people looking for work rose to 8.84 million. In addition, another 130,000 persons joined the ranks of those who now work part-time but would like to switch to full-time employment—bringing the total of partially unemployed persons to 5.6 million.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/18/84)	141,116	– 851	–11,690
New York City (4/25/84)	28,798	+ 210	– 6,264
Commercial Paper (4/25/84)	207,939	+ 2,513	+38,450

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since	
		Week Ago	Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (4/18/84)	234,850	+ 2,009	NA*
New York City (4/25/84)	61,609	– 371	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (4/18/84)	596,844	+ 6,921	NA*
New York City (4/25/84)	134,689	+ 54	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/4/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.06%	+ .11	+ 1.76
180-Day Bills†	10.70	+ .25	+ 2.20
Longest Bills†	11.15	+ .15	+ 2.48
Recent Issues:			
$11^{3}/_{4}$s 4/30/86	11.93	+ .08	
12s 3/31/88	12.45	+ .20	
$11^{3}/_{4}$s 11/15/93	12.88	+ .13	
12s 8/15/13	12.91	+ .11	
Municipals:			
Bond Buyer–20 Bond Index* (5/3/84)	9.99%	+ .05	+ 1.21
Blue List Total ($ Million)	$1,553	– $ 32	+ $ 80
30-Day Visible Supply ($ Million)	$2,530	+ $ 7	– $2,829
Total	$4,083	– $ 25	– $2,749
Corporates:			
Moody's Aa Composite (5/3/84)	13.76%	+ .15	+ 1.95
30-Day Visible Supply ($ Million)	$2,005	+ $300	+ $ 830
Stocks:			
Dow-Jones Averages:			
Industrials	1,165.31	– 3.76	– 67.28
Transportation	507.61	+ 9.87	– 44.49
Utilities	126.49	+ 1.10	– 2.62
65 Stocks	455.97	+ 2.03	– 27.06
Standard and Poor's 500 Stocks	159.11	– .78	– 6.99
N.Y.S.E. Composite Index	91.75	– .19	– 3.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	96,292	+10,146	– 6,780

* 46% Taxable equivalent 18.50%.

† Bond equivalent.

International Rates

	Friday 5/4/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.75%	10.38%
1 month	10.63	10.56
3 month	11.00	10.88
6 month	11.38	11.19
1 year	11.88	11.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.55%
Long Term (7 to 15 yrs.)	12.85	12.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/4/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01811	55.23
Canada	.7757	1.2891
Denmark	.1009	9.9100
France	.1203	8.3150
Germany	.3690	2.7098
Italy	.0005960	1677.90
Japan	.004416	226.43
Mexico	.005464	183.00
Netherlands	.3278	3.0510
Switzerland	.4456	2.2440
U.K.	1.4107	.7089

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and Business Indicators

MONDAY, MAY 14, 1984
VOLUME XXI, NUMBER 19

The Business Of America . . .

The small business economy is so much a part of everyday life that it is easily overlooked. There are about 14 million small business enterprises in the United States today, comprising 97 percent of all American companies. Ten million are sole proprietorships, two million are corporations, and two million, partnerships. Their contributions to the nation's economic health are manifold: small businesses develop new products and services and provide new jobs, technological innovations, entrepreneurial initiative, managerial talent, new skills and training, as well as spur older, established companies to greater efficiency and tougher competitiveness.

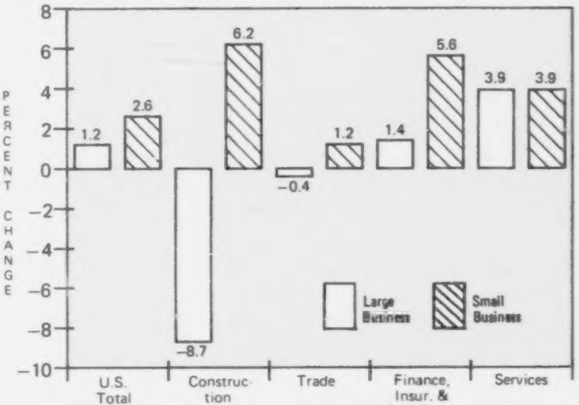
Small companies are usually deeply rooted in their local communities and neighborhoods and provide entry-level jobs for teenagers, women, minorities and immigrants. In fact, new small businesses have become the main driving force behind the nation's economic growth. According to statistics issued by the Small Business Administration, small businesses employ almost half of the nation's private nonfarm workers and generate approximately 38 percent of the gross national product.

. . . Is Small Business . . .

The effects of small businesses have not always been so important. Between 1950 and 1970, big companies or government created three out of every four new domestic jobs. However, from 1970 to 1980, small businesses provided most of the 20 million new jobs generated. What is more, this trend has accelerated during the 1980s. Even during 1981 and 1982, when the worst recession in decades caused massive layoffs in the steel, auto and other basic industries, small businesses posted a relatively strong performance, demonstrating their ability to adapt and grow in times of economic adversity. An estimated one million new businesses were formed in the early 1980s and, according to the Small Business Administration, small enterprises with under 20 employees provided most of the 982,000 net new jobs created in the U.S. between 1980 and 1982. They generated over 2.6 million new jobs, more than offsetting the 1.7 million positions lost by larger businesses.

The brighter economic picture in 1983 motivated a record number of people to become their own bosses. Indeed, an entrepreneurial boom of unprecedented dimensions took place in 1983. Estimates by Dun & Bradstreet indicate that business incorporations (nearly all of them small companies) reached 600,000 in 1983—a 5.2 percent increase over the number of filings recorded in 1982 and well above the previous all-time high of 580,000 recorded in 1981.

PERCENT CHANGE IN EMPLOYMENT IN SMALL VS. LARGE BUSINESS-DOMINATED SUBSECTORS OF SELECTED INDUSTRIES (SEPT. 1983 VS. SEPT. 1982)



Source: Small Business Administration

New companies represent a wide spectrum of business activities. Perhaps to the surprise of many, high-technology starts comprise only a fraction of total new business formations. Service firms are the fastest growing, with particularly high rates of formation in such areas as financial services, fast foods, legal services, insurance, physical fitness and air transportation. Thus, small businesses are fully participating in the transformation of the U.S. from a goods-producing to an information-based and service-oriented economy. In 1982, according to the Small Business Administration, service firms accounted for 23.4 percent of all small businesses, compared with 19.1 percent in 1976. By contrast, the share of retail trade firms declined during the same period to 29.1 percent in 1982 from 34.4 percent in 1976.

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During 1982 and 1983, business starts increased faster in deregulated industries than in the overall economy. Such incorporations rose 33 percent in the deregulated financial services sector, and 15 percent in the transportation and communications sector compared with 13 percent in the economy as a whole. Starts of nonbank credit agencies rose 68 percent during 1982 and 1983, whereas no major increases occurred in this sector prior to 1982.

Self-employed workers, who comprised only 7.6 percent of the civilian labor force in 1983, have made a large contribution to the current economic recovery. The number of self-employed persons increased by almost half a million in 1983, representing a 6.6 percent rise, compared with a 3.7 percent rise in wage and salary employment. Not surprisingly, this group did better financially than those who work for others. Small business revenues, as measured by the income of proprietorships and partnerships, grew 18 percent in 1983. By contrast, wage and salary income increased only 3.1 percent for the nation as a whole.

. . . Providing Jobs And Innovation

The contribution of small businesses to the nation's economic health is most visible in those industries for which small and large business-dominated industry subsectors can be identified. In the 12 months ending September, 1983, small business-dominated subsectors registered an employment gain of 2.6 percent, compared with an employment

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/9/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	163.865	− 6.436	+16.899
Loans to Depository Inst.	1.098	+ .069	+ .391
Float	.890	+ .324	− 1.272
Total Reserve Bank Credit	175.408	− 6.344	+15.907
Treasury Deposits with Federal Reserve Banks	5.651	− 9.816	+ 1.839
Currency in Circulation	171.424	+ .965	+12.933
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.095	− 1.274	+ 3.214
	5/9/84		
Member Bank Reserves:			
Total Reserves Held	35.876	− 1.060	+ 1.917
Excess (Deficiency)	.608	+ .048	+ .200
Net Borrowed Reserves	.277	− .677	+ .575

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/30/84)	534.6	+ 3.5	+ 7.5
M2 (April '84)	2,242.2	+ 6.5	+ 7.7
M3 (April '84)	2,790.4	+ 10.1	+ 9.4
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 5/11/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.85%	10.20%	10.50%
* Federal Agencies	10.35	11.15	11.55
* Project Notes—Taxfree (46% Taxable Equivalent)	10.46	10.74	12.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.50	11.95	12.65

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.60%	Jun.	10.90%
15- 29 days	10.65	Jul.	11.10
30- 59 days	10.55	Aug.	11.15
60- 89 days	10.40	Sep.	11.30
90-179 days	10.25	Oct.	11.30
180-239 days	10.25	Nov.	11.20
240-270 days	10.25		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	10.88%		
90-120 days	11.13	Effective Rate	10.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.3	5.0	2.6
Change in Consumer Prices (new series)*	Mar '84	2.4%	4.8%	1.2%
Change in Producer Prices*	Apr '84n	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '84	104,402	104,140	99,606
Unemployment as % of Civilian Labor Force†	Apr '84	7.8%	7.8%	10.2%
Personal Income*	Mar '84	$ 2,941	$ 2,927	$ 2,670
Leading Indicators Composite Index (1967=100)†	Mar '84	165.5	167.3	150.2
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Feb '84	$ 6.61	$ 4.47	$ 0.74
U.S. Merchandise Trade Balance †	Mar '84	−$ 10.26	−$ 10.09	−$ 3.70
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84	1,638	2,231	1,592
New Construction Expenditures*	Mar '84	$ 295.6	$ 292.0	$ 241.9
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

gain of 1.2 percent in large business-dominated subsectors (see chart on page 1).

Small enterprises have traditionally been the major innovators in American business. According to the Small Business Administration, they have introduced 2½ times as many new products as large companies and launched new industries ranging from semiconductors to gene splicing. Even smokestack industries are dependent on entrepreneurial innovation for the streamlining they urgently need to become more competitive. Such labor-saving devices as microprocessors and industrial robots developed by small high-technology firms are crucial in the current efforts to modernize auto assembly plants and steel mills. Moreover, small businesses are a challenge to older, established companies, forcing them to improve their productivity in order to compete.

The importance of small business in the American economy is being recognized by Federal and local governments. President Reagan earlier this year declared the week beginning May 6, 1984 as Small Business Week. Over 800 research awards to small firms, amounting to $40 million, to develop products for government use were made in 1983 by the new Federal Small Business Innovation and Research program. What is more, a number of states have taken steps to help fund new companies.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/25/84)	141,228	– 14	–10,171
New York City (5/2/84)	29,084	+ 286	– 4,746
Commercial Paper (5/2/84)	208,715	+ 832	+37,319

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/25/84)	234,707	+ 288	NA*
New York City (5/2/84)	62,256	+ 647	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/25/84)	597,667	+ 854	NA*
New York City (5/2/84)	136,574	+ 1,734	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/11/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.30%	+ .24	+ 1.90
180-Day Bills†	10.90	+ .20	+ 2.30
Longest Bills†	11.55	+ .40	+ 2.75
Recent Issues:			
$11^{3}/_{4}$s 4/30/86	12.50	+ .57	
12s 3/31/88	13.00	+ .55	
$13^{1}/_{8}$s 5/15/94 (When Issued)	13.50	NA	
$13^{1}/_{4}$s 5/15/14 (When Issued)	13.55	NA	
Municipals:			
Bond Buyer–20 Bond Index* (5/10/84)	10.19%	+ .20	+ 1.33
Blue List Total ($ Million)	$1,485	– $ 68	+ $ 2
30-Day Visible Supply ($ Million)	$3,057	+ $527	– $1,503
Total	$4,542	+ $459	– $1,501
Corporates:			
Moody's Aa Composite (5/10/84)	13.96%	+ .20	+ 2.14
30-Day Visible Supply ($ Million)	$1,765	– $240	+ $ 541
Stocks:			
Dow-Jones Averages:			
Industrials	1,157.14	– 8.17	– 61.61
Transportation	502.06	– 5.55	– 45.83
Utilities	129.29	– 2.80	– .32
65 Stocks	454.16	– 1.81	– 24.90
Standard and Poor's 500 Stocks	158.49	– .62	– 6.41
N.Y.S.E. Composite Index	91.23	– .52	– 3.84
N.Y.S.E. Avg. Daily Vol. for Week (000's)	99,354	+ 3,062	+ 6,372

* 46% Taxable equivalent 18.87%.

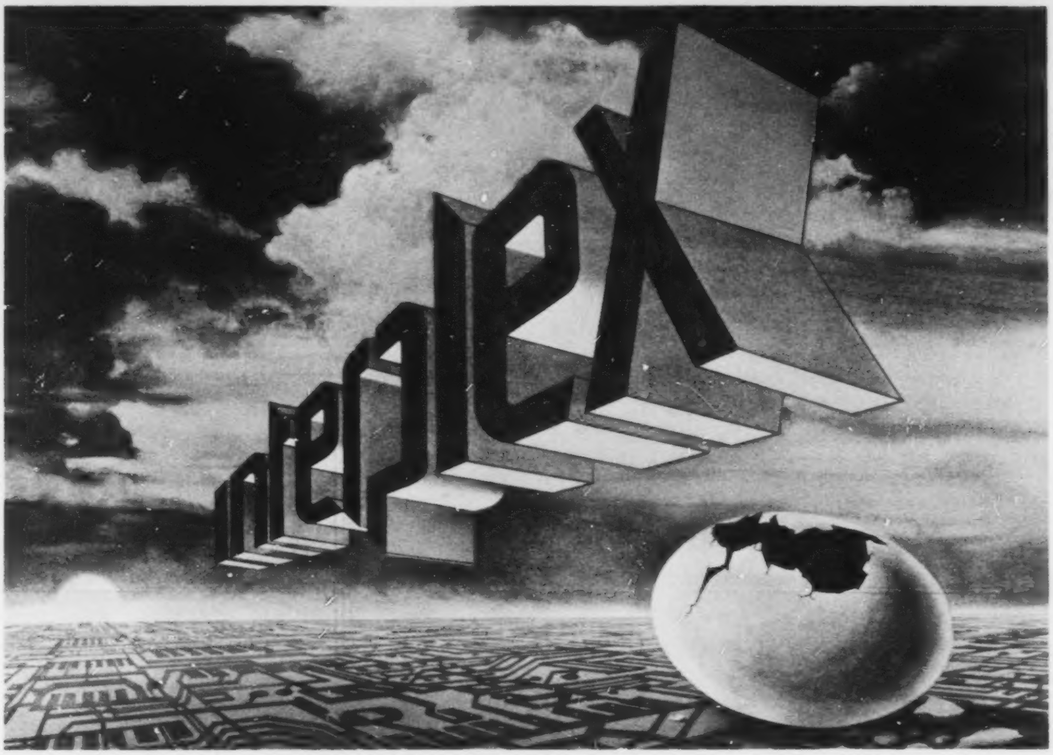
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/11/84	Week Ago
Overnight	10.06%	9.75%
1 month	10.63	10.63
3 month	11.81	11.00
6 month	12.13	11.38
1 year	12.75	11.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.90%	12.60%
Long Term (7 to 15 yrs.)	13.10	12.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/11/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01772	56.42
Canada	.7719	1.2955
Denmark	.0986	10.1430
France	.1175	8.5100
Germany	.3608	2.7715
Italy	.0005857	1707.30
Japan	.004343	230.23
Mexico	.005076	197.00
Netherlands	.3213	3.1125
Switzerland	.4373	2.2865
U.K.	1.3827	.7232



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 21, 1984
VOLUME XXI, NUMBER 20

To Accommodate Or Not . . .

With the release of a barrage of upbeat April economic numbers in recent days, the long-awaited slowing in the pace of business seems further away than ever—unsettling the credit markets, sending securities prices lower and interest rates decidedly higher. And, as if on cue, Wall Street again demonstrated that it prefers to march to the tune of a different drummer than Main Street, shrugging off what would normally be exceptionally favorable economic news: A business expansion which remains solidly on track, still modest rates of inflation and within-target money growth.

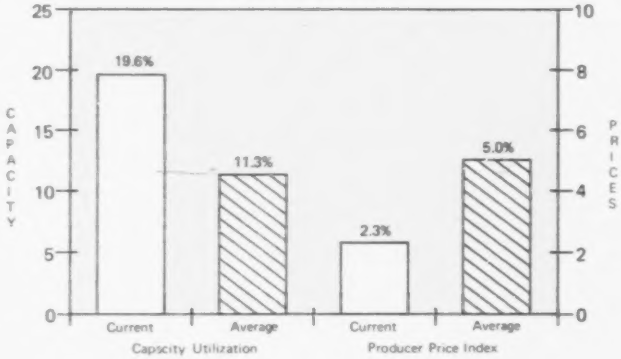
What is troubling the debt markets, and the stock market as well, is not today's news but what they think will be tomorrow's. For with the economy growing rapidly, swelling household and business credit demands are sure to clash head-on with Washington's enormous borrowings—as long as the Federal Reserve sticks to its inflation-fighting monetary policy stance. If it does, upward pressures on interest rates will only intensify. If it doesn't, inflation expectations will be reawakened—a policymaker's Hobson's choice in which, whatever the decision, the credit markets in general, and the bond markets in particular, lose.

To be sure, the perceived strength of the economy will be one of the primary influences on future monetary policy, the near-term course of which will be decided upon by the central bank's Federal Open Market Committee (FOMC) this week. For although business activity did taper off in March, due in large measure to severe weather in many parts of the country, the pause was short-lived. In April, retail sales snapped back from the declines of February and March and housing starts rose smartly. For their part, the industrial production, capacity utilization and personal incomes numbers all suggest continued business strength. Under these conditions, fears of economic "overheating" are again widespread, as is the belief that the Fed will soon tighten the money and credit reins in order to forestall the reignition of inflation expectations.

. . . That's The Fed's Question . . .

But, so far at least, rising production levels and capacity utilization rates have yet to translate into significant cost-price pressures—the major concern at the Fed. For, as shown in the chart, despite the fact that the rate of rise in capacity utilization during this recovery is now running well ahead that of past cyclical experience, the rate of rise in prices is not. At the producer level, for example, the rise in prices is slower this time around than in the past—even though operating rates in such key industries as paper, rubber, electrical machinery and autos have been averaging either far above or near the 85 percent mark.

PERCENT CHANGE FROM END OF RECESSION IN CAPACITY UTILIZATION AND PRODUCER PRICE INDEX: CURRENT RECOVERY VS. AVERAGE OF PRIOR 7 RECOVERIES



One reason for this could be the possibility that linkages between operating rates and price increases in specific industries are not all that clear-cut. With the exception of the paper industry of the four named above, the rate of rise in producer prices was actually faster during the 1981-82 recession, when capacity utilization rates were declining sharply, than they have been since—when they were rising sharply! In the exception, the paper industry, the price gain during the two periods was just about equal. This suggests that despite the fact that several industries are operating near capacity, it has yet to spill over in any significant way into either their product prices or overall rates of inflation.

Nor should trends in the money supply numbers be a cause of undue FOMC concern. This is because while the M1 money supply may well continue to expand strongly in May, much of the gain can be

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traced to the stepped-up distribution of individual income tax refunds. Even so, as money growth accelerates and begins to rise toward the top end of 1984's growth target boundaries, this development, together with signs of ongoing business expansion, will undoubtedly depress market sentiment. That, however, is in the future, for now, year-to-date M1 growth is still within its target boundaries, as is M2.

. . . As Credit Demands Surge

If neither today's rates of capacity utilization, inflation nor money growth warrant additional Fed restraint, one principal source of Fed concern may be the pronounced, and sustained upturn in private credit demands. With housing starts continuing at a high level and auto purchases remaining strong, household borrowings have yet to show any sign of fading. During the first quarter of 1984, for example, installment debt acquisitions surged at their fastest clip since the late 1970s. And, while household borrowings have been outdistancing gains in incomes in recent months, the key installment debt-to-disposable income ratio remains well below the peak reached in late 1978. In fact, households could add another $40 billion to installment debt outstanding before reaching the 1978 debt-to-income ratio peak. This means that the torrid, first-quarter borrowing clip could last the rest of this year—as long as consumer confidence holds up.

So, too, business borrowings are surging. This is

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit	**5/16/84**		
U.S. Gov'ts and Agencies			
Owned Outright & RPs	161.122	– 2.743	+12.408
Loans to Depository Inst.	4.613	+ 3.515	+ 3.540
Float	.029	– .863	– 1.493
Total Reserve Bank Credit	174.893	– .517	+14.900
Treasury Deposits with			
Federal Reserve Banks	3.521	– 2.130	+ .390
Currency in Circulation	172.123	+ .699	+13.244
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	114.378	+ .283	+ 4.407
	5/9/84		
Member Bank Reserves:			
Total Reserves Held	35.880	– 1.064	+ 1.921
Excess (Deficiency)	.603	+ .036	+ .195
Net Borrowed Reserves	.282	– .665	+ .580
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (5/7/84)	539.4	+ 3.6	+ 7.2
M2 (April '84)	2,242.1	+ 6.4	+ 7.7
M3 (April '84)	2,790.6	+ 10.1	+ 9.4
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 5/18/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.06%	11.05%	11.75%
* Federal Agencies	10.70	11.25	11.85
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	10.65	11.85
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.30	11.85	12.60

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.75%	Jun.	10.75%
15- 29 days	9.50	Jul.	10.85
30- 59 days	10.20	Aug.	11.10
60- 89 days	10.65	Sep.	11.25
90-179 days	10.75	Oct.	11.35
180-239 days	10.25	Nov.	11.35
240-270 days	10.25		

‡Industrial Paper—Prime			
30- 89 days	10.55%	†Federal Funds	
90-120 days	10.75	Effective Rate	9.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542r	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606r	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8r	5.0	2.6
Change in Consumer Prices (new series)*	Mar '84	2.4%	4.8%	1.2%
Change in Producer Prices*	Apr '84	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '84	104,402	104,140	99,606
Unemployment as % of Civilian Labor Force†	Apr '84	7.8%	7.8%	10.2%
Personal Income*	Apr '84n	$ 2,957	$ 2,942r	$ 2,689
Leading Indicators Composite Index (1967=100)†	Mar '84	165.5	167.3	150.2
Industrial Production Index (1967=100) †	Apr '84n	163.1	160.9r	142.6
Net Change in Consumer Installment Credit †	Mar '84n	$ 5.87	$ 6.61	$ 2.58
U.S. Merchandise Trade Balance †	Mar '84	–$ 10.26	–$ 10.09	–$ 3.70
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Apr '84n	1,963	1,645r	1,549
New Construction Expenditures*	Mar '84	$ 295.6	$ 292.0	$ 241.9
Total Business Inventories †	Mar '84n	$ 531.8	$ 527.6r	$ 499.4
Total Business Sales †	Mar '84n	$ 400.7	$ 398.8r	$ 348.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

because with inventory outlays rising sharply, equipment spending still robust and plant outlays increasing as well, business spending is now running well ahead of business cash flow. And, with both the bond and equity markets in disarray, a good chunk of the resulting corporate finance needs is being met at the commercial banks and in the short-term debt market.

Commercial and industrial loans as well as commercial paper issuance have both soared in recent months. Although some of the strength in business borrowings can be traced to stepped-up merger and acquisition activity, it also stems from increased working capital and investment spending needs. Add to this the fact that the Treasury remains a substantial borrower of funds, and it is hardly surprising that the growth of nonfinancial sector debt in recent months has been expanding at double-digit annual rates.

Swelling credit demands, along with the unwillingness of the Fed to be entirely accommodative toward these credit needs, represent a one-two punch that has been sending yields higher across the entire maturity spectrum. Nor is this situation expected to change anytime soon, despite today's well-behaved rates of inflation and money supply growth. For the Fed finds itself with little option but to stick to its guns and allow interest rates to move higher, hoping to dampen the pace of business just enough to keep inflation moderate—but not so much as to raise the threat of a new recession.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/2/84)	141,983	+ 423	– 6,487
New York City (5/9/84)	29,739	+ 655	– 3,900
Commercial Paper (5/9/84)	208,478	– 216	+37,807

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/2/84)	236,452	+ 1,721	NA*
New York City (5/9/84)	62,977	+ 722	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/2/84)	602,809	+ 4,891	NA*
New York City (5/9/84)	135,139	– 1,356	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/18/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.06%	– .24	+ 1.46
180-Day Bills†	11.05	+ .15	+ 2.22
Longest Bills†	11.75	+ .20	+ 2.65
Recent Issues:			
11$^{3}/_{4}$s 4/30/86	12.54	+ .04	
12s 3/31/88	13.10	+ .10	
13$^{1}/_{8}$s 5/15/94	13.59	+ .09	
13$^{1}/_{4}$s 5/15/14	13.62	+ .07	
Municipals:			
Bond Buyer–20 Bond Index* (5/17/84)	10.36%	+ .17	+ 1.07
Blue List Total ($ Million)	$1,566	+ $ 81	+ $ 90
30-Day Visible Supply ($ Million)	$2,744	– $313	– $1,570
Total	$4,310	– $232	– $1,480
Corporates:			
Moody's Aa Composite (5/17/84)	14.23%	+ .27	+ 2.20
30-Day Visible Supply ($ Million)	$1,915	+ $150	+ $ 800
Stocks:			
Dow-Jones Averages:			
Industrials	1,133.79	– 23.35	– 56.13
Transportation	474.59	– 27.47	– 65.03
Utilities	127.31	– 1.98	– 1.57
65 Stocks	441.21	– 12.95	– 28.91
Standard and Poor's 500 Stocks	155.78	– 2.71	– 6.36
N.Y.S.E. Composite Index	89.56	– 1.67	– 4.15
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,904	–16,450	+ 408

* 46% Taxable equivalent 19.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/18/84	Week Ago
Overnight	9.25%	10.06%
1 month	10.88	10.63
3 month	11.75	11.81
6 month	12.31	12.13
1 year	12.94	12.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.90%	12.90%
Long Term (7 to 15 yrs.)	13.15	13.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/18/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01776	56.31
Canada	.7717	1.2959
Denmark	.0986	10.1450
France	.1175	8.5100
Germany	.3606	2.7735
Italy	.0005855	1707.80
Japan	.004288	233.20
Mexico	.005063	197.50
Netherlands	.3209	3.1160
Switzerland	.4387	2.2795
U.K.	1.3872	.7209

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- Seve Ballesteros, defending champion, and other top pros from the PGA Tour, will compete for $500,000 in prize money, and the winner's purse of $90,000.
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The Manufacturers
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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, MAY 25, 1984
VOLUME XXI, NUMBER 21

Slowing Inflation . . .

One of the brightest spots in the improving global economic environment is the pronounced slowing of world inflation. In the U.S., for example, consumer prices rose by only 3.2 percent year-over-year in 1983—the smallest annual increase since 1967. And although consumer prices rose at a 4.2 percent annual rate in the first quarter of this year, this pace is still well below the average annual rate of increase of the past 15 years. In many of the other major industrial countries, inflation has eased to the slowest pace since the early 1970s.

For the first time in the postwar period, the inflation rate in the industrial countries has ratcheted downward from levels prevailing in the previous economic cycle. What is more, the outlook is for more moderate price increases over the course of this recovery than in recent business cycles. This suggests that the current global expansion may be more sustainable than previous ones, with more countries eventually participating in it than now.

In the industrial countries as a group, inflation performance has improved markedly in recent months. Consumer prices rose by 0.4 percent in March of this year after a 0.5 percent increase in February and a 0.6 percent uptick in January. In the first quarter of this year, prices in the industrial countries were more than five percent higher than in the same quarter of 1983, the smallest four-quarter increase since 1972 and down considerably from the peak rates of 1980. In five of the seven major industrial countries (France, Germany, Italy, the United Kingdom and Canada), inflation in the six months ending in March 1984 ran on average at an annual rate of about one-quarter below the level of 1983 as a whole.

. . . Will Set The Stage . . .

The improvement in the last few months is a continuation of a trend which began in 1982. For example, on a calendar year basis, prices in Japan in 1983 rose only 1.8 percent above 1982—the smallest of any industrial country and the lowest rise for Japan since 1959, while in Germany, the 3.0 percent increase was that country's lowest in five years.

The United Kingdom, which in 1979 under the new Thatcher government became the first high-inflation western country to clamp down seriously on its inflation, registered the best progress against the rise in consumer prices—only 4.6 percent in 1983 after an 8.6 percent rise in 1982 and an 18 percent increase in 1980. Inflation slowed even further in the six months ending last March to a 3¼ percent annual rate. Canada has also reduced its inflation rate over the 12 months ending this past March to 4.7 percent compared with 5.9 percent, year-over-year, for 1983. Even France, which was late joining the battle against inflation, has cut its annualized inflation rate to about eight percent in the first quarter compared with 9.6 percent for the year 1983. Among the 21 principal industrial countries, only Iceland and Sweden had higher inflation in 1983 than in the year before, but these countries, too, have begun to slow the pace of consumer price increases.

Besides the industrial countries, several developing countries, particularly in Asia, have been able to dampen price pressures. In South Korea, for example, the inflation rate dropped from the 1980 peak of 28.7 percent to 2.0 percent in the 12 months ending last February, the lowest 12-month performance in all but one of the past 25 calendar years. Singapore and Thailand have also shown sharp improvement in their inflation performance. However, a rising rate of inflation in Latin America—to an average of 131 percent in 1983 from 80 percent in 1982—is another exception to the trend.

One of the important reasons for the general downward ratcheting of inflation in this business cycle has been the moderation in wage increases. The prolonged 1981-82 recession which was preceded by

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an extended slowdown in growth beginning in 1980, left 30 million workers unemployed in the major industrial countries, taming labor's excessive wage demands. As a result, the average increase in hourly earnings in manufacturing slowed to six percent in 1983 from 8.3 percent in 1982 and an average of 11.3 percent during 1972-81. Reflecting this and the labor productivity gains usually observed during the initial stages of a recovery, unit labor costs in the seven largest industrial economies rose only 1.5 percent in 1983—lower than at any time during the 1970s. In spite of the much improved growth prospects in the developed world this year, persistent high unemployment will continue to moderate wage demands.

Further, the prolonged slowdown also strongly eroded the prices of oil and primary commodities. Despite the world economic recovery, these prices are still 17.6 percent and 14 percent respectively below their peak levels in the early 1980s.

Food prices have also contributed to the slowing of inflation. Despite weather-related problems in many parts of the world, food prices at the retail level rose more slowly in the industrial countries last year, than at any time since 1973. In 1983, for example, food prices rose on average only about two percent

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/23/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.036	– 4.086	+ 7.728
Loans to Depository Inst.	3.746	– .867	+ 2.795
Float	.454	+ .429	– 1.172
Total Reserve Bank Credit	169.177	– 5.712	+ 9.461
Treasury Deposits with			
Federal Reserve Banks	4.020	+ .499	+ 1.054
Currency in Circulation	171.776	– .342	+13.243
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.650	– .728	+ 3.983
	5/23/84		
Member Bank Reserves:			
Total Reserves Held	35.760	– .096	+ 1.654
Excess (Deficiency)	.557	– .028	+ .107
Net Borrowed Reserves	2.969	+ 2.669	+ 3.083
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (5/14/84)	541.0	+ 4.0	+ 7.0
M2 (April '84)	2,242.3	+ 6.5	+ 7.7
M3 (April '84)	2,791.7	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 5/25/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.00%	11.21%	11.96%
* Federal Agencies	10.77	11.37	11.96
* Project Notes–Taxfree (46% Taxable Equivalent)	10.37	10.74	12.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	11.69	12.38	13.31

‡ Finance Company Paper–Prime	
5- 14 days	9.50%
15- 29 days	10.00
30- 59 days	10.30
60- 89 days	10.40
90-179 days	10.40
180-239 days	10.00
240-270 days	10.00

‡* Bankers' Acceptances	
Jun.	10.50%
Jul.	10.65
Aug.	10.95
Sep.	11.15
Oct.	11.20
Nov.	11.30

‡ Industrial Paper–Prime	
30- 89 days	10.35%
90-120 days	10.60

† Federal Funds Effective Rate 10.05%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84n	6.0%	2.4%	8.4%
Change in Producer Prices*	Apr '84	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons) †	Apr '84	104,402	104,140	99,606
Unemployment as % of Civilian Labor Force †	Apr '84	7.8%	7.8%	10.2%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100) †	Mar '84	165.5	167.3	150.2
Industrial Production Index (1967=100) †	Apr '84	163.1	160.9	142.6
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New Construction Expenditures*	Mar '84	$ 295.6	$ 292.0	$ 241.9
Total Business Inventories †	Mar '84	$ 531.8	$ 527.6	$ 499.4
Total Business Sales †	Mar '84	$ 400.7	$ 398.8	$ 348.2

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

in the U.S., Canada, Japan and Germany.

. . . For Stronger Economic Growth

But the basis for expecting further favorable inflation developments in the future is the recent change in the philosophy of public economic management in many industrial countries. Until the late 1970s, the dominant tenet was to promote growth and full employment through active government intervention in the economy, using either fiscal or monetary means. However, by the 1970s, it was apparent that this produced higher rates of monetary growth and inflation but less real growth. Indeed, world economic growth slowed from an annual average of 5.1 percent in the 1960s to 3.8 percent by the 1970s, while inflation climbed from 4.1 percent to 10.1 percent as the global money supply grew from 7.7 percent to 12.8 percent. This was the "stagflation" problem of the 1970s.

Consequently, recent national economic policies in most industrial countries have attempted to stabilize prices, with special emphasis on anti-inflationary monetary restraint. The intent is to foster sustained long-term growth by making the private sector more confident of the future and therefore more willing to save and invest.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/9/84)	144,700	+ 2,346	– 3,189
New York City (5/16/84)	30,437	+ 698	– 3,034
Commercial Paper (5/16/84)	212,332	+ 3,854	+42,188

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/9/84)	239,101	+ 2,430	NA*
New York City (5/16/84)	63,578	+ 601	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/9/84)	601,866	– 808	NA*
New York City (5/16/84)	136,690	+ 1,469	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/25/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.00%	– .06	+ 1.14
180-Day Bills†	11.20	+ .15	+ 2.07
Longest Bills†	11.95	+ .20	+ 2.61
Recent Issues:			
$12\frac{5}{8}$s 5/31/86 (When Issued)	12.75	NA	
12s 3/31/88	13.25	+ .15	
$13\frac{1}{8}$s 5/15/94	13.75	+ .16	
$13\frac{1}{4}$s 5/15/14	13.75	+ .13	
Municipals:			
Bond Buyer–20 Bond Index* (5/24/84)	10.83%	+ .47	+ 1.32
Blue List Total ($ Million)	$1,580	+$ 14	+ $ 82
30-Day Visible Supply ($ Million)	$2,696	–$ 48	– $648
Total	$4,276	–$ 34	– $566
Corporates:			
Moody's Aa Composite (5/24/84)	14.31%	+ .08	+ 2.12
30-Day Visible Supply ($ Million)	$ 510	–$1,405	– $250
Stocks:			
Dow-Jones Averages:			
Industrials	1,107.10	– 26.69	– 109.04
Transportation	462.76	– 11.83	– 82.34
Utilities	123.55	– 3.76	– 6.57
65 Stocks	430.28	– 10.93	– 47.75
Standard and Poor's 500 Stocks	151.62	– 4.16	– 12.84
N.Y.S.E. Composite Index	87.12	– 2.44	– 8.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,328	+ 1,424	– 13,134

* 46% Taxable equivalent 20.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/25/84	Week Ago
Overnight	10.13%	9.25%
1 month	10.75	10.88
3 month	11.63	11.75
6 month	12.31	12.31
1 year	13.25	12.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.00%	12.90%
Long Term (7 to 15 yrs.)	13.25	13.15

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/25/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01802	55.50
Canada	.7721	1.2952
Denmark	.1001	9.9900
France	.1192	8.3900
Germany	.3671	2.7240
Italy	.0005926	1687.50
Japan	.004326	231.15
Mexico	.004938	202.50
Netherlands	.3253	3.0738
Switzerland	.4447	2.2488
U.K.	1.3850	.7220

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MONDAY, JUNE 4, 1984
VOLUME XXI, NUMBER 22

Petroleum Demand Is On The Rise . . .

The heady business expansion which is just entering its 19th month has revived consumer and industry demand for petroleum. Following five years of nonstop declines, U.S. oil consumption began posting year-over-year increases last summer and in the first four months of this year, it was more than five percent ahead of last year. But considering the unusually long and frigid winter, low gasoline prices and the torrid pace of recovery, it is interesting that the turnaround was not even more dramatic.

It thus remains clear that conservation efforts adopted over the past decade remain an important part of the energy picture as American consumers and industry alike continue to emphasize efficiency. To illustrate, while the economy expanded by a sharp 8.8 percent at a seasonally adjusted annual rate in the first quarter, compared with the October-December period, oil consumption rose only slightly more than half as fast during this period. This means that we are still using less and less energy to produce a given level of output.

According to the Department of Energy, in 1983, 45,900 BTUs of energy including petroleum, natural gas, coal, hydro and nuclear electricity among others, were needed to produce one dollar of "real" GNP. This was well below the 59,200 BTUs needed in 1973. What is more, only 19,500 BTUs of petroleum energy were needed to produce one GNP dollar in the first quarter of this year, whereas nearly 28,000 BTUs were utilized in 1973.

. . . But Improving Efficiency . . .

Probably the most important strides in petroleum conservation have been made by American motorists. For despite a 25 percent rise in the number of cars on the road since 1973, consumption of gasoline in the U.S. was actually lower in the first four months of 1984 than it was 11 years earlier! The major reason for this decline in gasoline demand in the past decade has been the dramatic improvement in the fuel efficiency of the nation's fleet. Although the average age of all cars in use has risen to 7.4 years—the oldest in nearly 35 years—the average number of miles traveled per gallon of fuel consumed is estimated to have increased by about one-third since 1973 (see table). Undoubtedly, the sharp rebound in new automobile sales in 1983 and so far in 1984 has helped accelerate the rise in fuel efficiency, despite carbuyers' renewed interest in larger cars. According to the U.S. Department of Transportation, new cars—domestic and foreign—got an average of 26.4 miles per gallon in 1983, up from 14.2 in 1974.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,002		579		15.5
1982	9,167		561		16.3
1983(p)	9,371		566		16.6
1984(e)	9,641		554		17.4

(p) preliminary
Sources: Federal Highway Administration, MHT estimates

Demand for gasoline in the first four months of 1984 rose only 0.5 percent compared with the same period a year ago. Stepped-up efficiency notwithstanding, this is a surprisingly small rise considering most people's improved financial positions and their perceived rosier employment and income prospects. But motorists do not seem to be heading for the highways the way they used to. They drove an estimated 8,460 miles at an annual rate in the first quarter, less than they clocked in 1973 and five percent below 1978's first quarter. This is further underscored by the Conference Board's latest survey of vacation plans. It shows that last June 32.5 percent of households surveyed intended to take driving vacations in the ensuing six months, but since then the proportion has been steadily shrinking. The latest poll reveals that only 29.8 percent intend to drive.

For those who do plan to drive this summer, things are looking up. Gasoline prices are currently lower than they were at yearend 1983 and are, on average, only one cent above year-ago levels. This is because

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stocks of gasoline have been swelling counterseasonally since early winter. Normally, they start to be drawn down in February, but refiners this year have added some 15 million barrels to their storage tanks since then.

The colder than normal winter and the stepped-up production of home heating fuel are partly responsible for the bulging storage tanks of gasoline. This is because during the refining process, each barrel of crude oil yields about twice as much gasoline as it does distillates. So while refiners cranked up production to satisfy the jump in demand for distillates which include home heating oil and diesel fuel, they added to their inventories of gasoline at the same time.

. . . Dampens Consumption

But while the increased demand for home heating oil has been well publicized, the even more dramatic surge in diesel fuel consumption has not. In response to a 15 percent year-over-year rise in the number of ton miles hauled by railroads, a 13 percent increase in truck tonnage, and increased fuel use by farmers, who planted more crops this year than last, consumption of diesel fuel jumped nearly 16 percent in the first quarter, compared with a year ago. As a result, the cost of a gallon of diesel fuel is now higher than that for regular gasoline in many parts of the country.

Although refiners stepped up production of distillates, supplies rose less rapidly than demand,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit	**5/30/84**		
U.S. Gov'ts and Agencies			
Owned Outright & RPs	160.710	+ 3.674	+11.316
Loans to Depository Inst.	3.008	– .738	+ 1.890
Float	.383	– .056	– 1.334
Total Reserve Bank Credit	172.188	+ 3.026	+11.862
Treasury Deposits with			
Federal Reserve Banks	3.332	– .688	+ .449
Currency in Circulation	172.603	+ .827	+12.910
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.517	– .133	+ 5.567
	5/23/84		
Member Bank Reserves:			
Total Reserves Held	35.812	– .060	+ 1.706
Excess (Deficiency)	.619	+ .028	+ .169
Net Borrowed Reserves	2.907	+ 2.613	+ 3.021
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (5/21/84)	544.3	+ 5.3	+ 7.1
M2 (April '84)	2,242.5	+ 6.5	+ 7.7
M3 (April '84)	2,790.8	+ 10.2	+ 9.4
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 6/1/84			
‡U.S. Treasury Bills	10.10%	11.29%	12.06%
*** Federal Agencies**	10.18	11.44	12.01
*** Project Notes—Taxfree (46% Taxable Equivalent)**	10.19	10.65	11.85
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	11.20	11.95	12.81

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.30%	Jul.	10.65%
15- 29 days	10.40	Aug.	10.80
30- 59 days	10.45	Sep.	10.90
60- 89 days	10.50	Oct.	11.25
90-179 days	10.40	Nov.	11.45
180-239 days	10.25	Dec.	11.45
240-270 days	10.25		

‡Industrial Paper—Prime			
30- 89 days	10.30%	†Federal Funds	
90-120 days	10.65	Effective Rate	10.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84	6.0%	2.4%	8.4%
Change in Producer Prices*	Apr '84	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons) †	May '84n	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force†	May '84n	7.5%	7.8%	10.1%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100)†	Apr '84n	167.8	166.9r	152.5
Industrial Production Index (1967=100) †	Apr '84	163.1	160.9	142.6
Net Change in Consumer Installment Credit †	Mar '84	$ 5.87	$ 6.61	$ 2.94
U.S. Merchandise Trade Balance †	Apr '84n	–$ 12.19	–$ 10.26	–$ 4.73
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Apr '84	1,963	1,645	1,549
New Construction Expenditures*	Apr '84n	$ 302.5	$ 302.0r	$ 247.4
Total Business Inventories †	Mar '84	$ 531.8	$ 527.2r	$ 499.4
Total Business Sales †	Mar '84	$ 400.7	$ 398.8	$ 348.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

causing inventories to plummet to record lows. But while this spells firming diesel fuel prices for truckers and railroads this summer, homeowners will not feel its impact until next fall when the 1984-85 heating season begins. And for motorists, the seasonal increase in gasoline prices, which generally occurs sometime around Memorial Day and lasts through Labor Day, will be dampened by plentiful supplies or may even fail to materialize at all. What is more, overall demand for energy is expected to flatten out once again as the pace of business starts to slow later on this year.

The Iran-Iraq war should not affect the price outlook, either. The attacks on vessels traveling in the Persian Gulf have not yet caused any significant price movements on the spot and futures markets. Widespread knowledge of existing large stockpiles in the major oil-importing countries, along with Saudi Arabia's huge floating storage outside the Strait of Hormuz and the additional production capacity by the countries outside the Gulf seem to have dampened traders' worries so far. However, tanker freight rates and shippers' insurance premiums have spiked sharply higher, adding several dollars to the cost of each barrel of petroleum. Since freight and insurance are not included in spot market quotes, at least one oil producer has agreed to give discounts on its oil prices to offset—at least partially—these added costs of delivery.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/16/84)	146,566	+ 1,862	+ 625
New York City (5/23/84)	30,990	+ 593	– 2,448
Commercial Paper (5/23/84)	214,848	+ 2,516	+45,213

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/16/84)	240,527	+ 1,103	NA*
New York City (5/23/84)	63,373	– 205	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/16/84)	605,001	+ 3,283	NA*
New York City (5/23/84)	137,099	+ 212	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 6/1/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.15%	+ .15	+ 1.19
180-Day Bills†	11.15	– .05	+ 1.85
Longest Bills†	12.00	+ .05	+ 2.52
Recent Issues:			
$12\frac{5}{8}$s 5/31/86	12.75	–0–	
12s 3/31/88	13.30	+ .05	
$13\frac{1}{8}$s 5/15/94	13.60	– .15	
$13\frac{1}{4}$s 5/15/14	13.55	– .20	
Municipals:			
Bond Buyer–20 Bond Index* (5/31/84)	11.07%	+ .24	+ 1.29
Blue List Total ($ Million)	$1,378	– $202	+ $ 58
30-Day Visible Supply ($ Million)	$2,176	– $520	– $718
Total	$3,554	– $722	– $660
Corporates:			
Moody's Aa Composite (5/31/84)	14.47%	+ .16	+ 2.32
30-Day Visible Supply ($ Million)	$ 410	– $100	– $180
Stocks:			
Dow-Jones Averages:			
Industrials	1,124.35	+ 17.25	– 88.69
Transportation	478.09	+ 15.33	– 72.97
Utilities	124.37	+ .82	– 5.24
65 Stocks	438.33	+ 8.05	– 40.31
Standard and Poor's 500 Stocks	153.24	+ 1.62	– 11.18
N.Y.S.E. Composite Index	88.15	+ 1.03	– 6.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,293	+ 3,965	+ 5,358

* 46% Taxable equivalent 20.50%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/1/84	Week Ago
Overnight	9.69%	10.13%
1 month	10.75	10.75
3 month	11.63	11.63
6 month	12.38	12.31
1 year	13.38	13.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.00%	13.00%
Long Term (7 to 15 yrs.)	13.25	13.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/1/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01810	55.25
Canada	.7730	1.2936
Denmark	.1003	9.9675
France	.1201	8.3288
Germany	.3695	2.7060
Italy	.0005970	1675.00
Japan	.004337	230.55
Mexico	.004902	204.00
Netherlands	.3277	3.0513
Switzerland	.4455	2.2448
U.K.	1.3920	.7184

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 11, 1984 VOLUME XXI, NUMBER 23

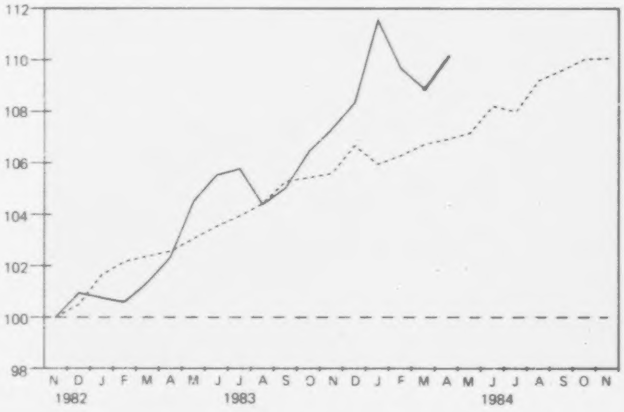
Consumers Go On Spending . . .

After postponing major purchases for years, consumers have rushed back to the marketplace during the current business upswing. Seeing their incomes rise and the employment situation brighten has given them the confidence to draw on credit lines and savings accounts to buy new homes, cars and other goods with greater fervor than has been typical during the first year and a half of earlier expansions. "Real" personal consumption expenditures excluding services are about ten percent higher now than at the end of the last recession with spending for durable goods providing most of the momentum. At this stage of the previous four recoveries, the rise in spending averaged only 6.9 percent (see chart). But while consumer outlays, which represent two-thirds of the GNP, will remain a significant force behind this year's economic growth, people's eagerness to spend may soon diminish, with spending settling down to rates more typical of a second year of recovery.

Personal income, which is the most direct determinant of consumer spending habits, could be losing some of its vigor. In the first four months of this year, wages and salaries rose 9.1 percent, year-over-year. When adjusted for inflation, these increases are the steepest since early 1978. But judging by May's employment figures, wages and salaries may not repeat these hefty gains. This is because the fall in the average workweek more than offset the expansion in the work force (calculated from the survey of establishments), resulting in a decline in aggregate hours worked. What is more, average hourly earnings declined by 0.4 percent. The household survey, which also includes such other groups as farm workers, the self-employed, workers on strike or on unpaid leave, paints a rosier picture. It shows the work force swelling by 886,000 in May.

An unusual contributor to the high level of employment during the past year is the growing number of self-employed persons, now 238,000 larger than a year ago. This is underscored by the recent report by the Dun and Bradstreet Corporation which says that more businesses opened their doors in 1984's first quarter than in any other first quarter since 1978. Business starts increased more than 33 percent from a year ago among service companies, with the most dramatic gains made by accounting and engineering/architectural firms. Not surprisingly, in response to the sharp rise in new housing construction and stepped-up residential home renovation and expansion activity, the construction industry showed a 31 percent increase in business starts. Retail businesses, as is usually the case, accounted for the largest number of starts, representing about 40 percent of the total number of business starts and workers hired by new firms.

REAL PERSONAL CONSUMPTION EXPENDITURES EXCLUDING SERVICES: CURRENT RECOVERY (LINE) VS. AVERAGE OF PRIOR 4 RECOVERIES (DOT) [TROUGH=100]



. . . But The Buying Spree . . .

While the unemployment rate should fall further during the next several months, it is a good bet that the biggest declines have already taken place. This is suggested by May's survey of the nation's purchasing managers, who reported that the economy continued to expand, but more slowly than April's brisk pace. Only 27 percent of their members reported an increase in new orders, down from 46 percent for April. Similarly, the Bureau of Labor Statistics reported a hefty 3.6 percent month-over-month decline in factory orders in April, following eight consecutive monthly increases. These are harbingers of a slowing economy, indicating that industrial production is now rising at a slower pace, and with it businessmen's demand for labor.

However, as long as market interest rates continue their upward climb, one large component of per-

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270 Park Avenue, New York, N.Y. 10017

sonal income should keep on expanding. Interest income—the silver lining of the high interest rate cloud—has already added nearly $17 billion to consumers' buying power since January. It represented one-third of the overall gain in personal incomes during this period and was equivalent to one-half of the rise in wages and salaries. As a result, interest income is once again on its way to becoming the second largest segment of personal income—behind wages and salaries—surpassing transfer payments, which include unemployment benefits and welfare payments. The last time interest income rose above transfer payments occurred between May, 1981 and June, 1982 when interest rates skyrocketed. Since then, as money market rates declined, interest income growth slowed. At the same time, the recession in general and high unemployment in particular raised transfer payments. But if both components continue growing at rates similar to those posted since January, interest income will once more be the second largest component before the end of this quarter.

. . . Is Probably Over

Domestic automobile sales have not shown any signs of slowing—yet. In fact, in May, they jumped to a seasonally adjusted 8.6 million unit annual rate, which is the healthiest clip in more than five years. But given the production and inventory constraints facing dealers and manufacturers, it would seem that current sales of domestic cars are bumping up against maximum levels.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/6/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	162.432	+ 1.722	+12.984
Loans to Depository Inst.	3.131	+ .123	+ 2.224
Float	.570	+ .187	− 1.488
Total Reserve Bank Credit	174.290	+ 2.102	+13.866
Treasury Deposits with			
Federal Reserve Banks	4.704	+ 1.372	+ 2.056
Currency in Circulation	173.733	+ 1.080	+12.929
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.776	+ .259	+ 3.693
	6/6/84		
Member Bank Reserves:			
Total Reserves Held	35.602	− .202	+ 1.926
Excess (Deficiency)	.581	− .037	− .043
Net Borrowed Reserves	2.294	− .614	+ 2.571
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (5/28/84)	541.9	+ 6.3	+ 7.0
M2 (April '84)	2,243.0	+ 6.6	+ 7.7
M3 (April '84)	2,791.3	+ 10.2	+ 12.0
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/8/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.20%	11.22%	11.83%
* Federal Agencies	10.49	11.30	11.99
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	10.74	12.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.95	11.65	12.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.60%	Jul.	10.75%
15- 29 days	10.65	Aug.	10.80
30- 59 days	10.70	Sep.	10.95
60- 89 days	10.60	Oct.	11.15
90-179 days	10.45	Nov.	11.45
180-239 days	10.25	Dec.	11.40
240-270 days	10.25		

‡Industrial Paper—Prime			
30- 89 days	10.65%	†Federal Funds	
90-120 days	10.80	Effective Rate	10.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84	6.0%	2.4%	8.4%
Change in Producer Prices*	Apr '84	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons) †	May '84	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force †	May '84	7.5%	7.8%	10.1%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100) †	Apr '84	167.8	166.9	152.5
Industrial Production Index (1967=100) †	Apr '84	163.1	160.9	142.6
Net Change in Consumer Installment Credit †	Mar '84	$ 5.87	$ 6.61	$ 2.94
U.S. Merchandise Trade Balance †	Apr '84	−$ 12.19	−$ 10.26	−$ 4.73
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Apr '84	1,963	1,645	1,549
New Construction Expenditures*	Apr '84	$ 302.5	$ 302.0	$ 247.4
Total Business Inventories †	Mar '84	$ 531.8	$ 527.2	$ 499.4
Total Business Sales †	Mar '84	$ 400.7	$ 398.8	$ 348.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Were it not for the strong used car market, fewer people could probably afford to buy a car. The average new car price is eating up larger and larger chunks of people's incomes. While in 1973, the average new car price represented 17 weeks of a median household's income, in 1983, the same family had to work more than four weeks longer for their new car. However, the number of weeks needed to work in order to buy a new car fell in the first quarter of this year, as gains in personal incomes outdistanced the rise in the price of a typical new automobile, which now averages nearly $11,000.

Rising mortgage interest rates have already dampened potential homebuyers' enthusiasm. The typical buyer now pays a full percentage point more for a fixed-rate mortgage than those who bought in mid-April. Although sales of existing homes edged up 1.7 percent in April, sales of new single-family homes were down 4.9 percent on top of a 4.3 percent retreat in March. As a result, the inventory of unsold new homes moved up to 6.2 months' supply—the highest since September, 1983. This, in turn, does not augur well for such downstream industries as home appliances, since each new home needs an average of three new appliances. Not surprisingly, the nation's major retail chains reported slower sales in May—especially of this merchandise. What is more, some merchants report an unwanted rise in their inventories once again, and are beginning to launch new sales promotions to trim the excess.

(continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/23/84)	150,664	+ 3,937	+ 4,077
New York City (5/30/84)	32,668	+ 1,395	– 592
Commercial Paper (5/30/84)	214,646	– 722	+45,259

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/23/84)	240,612	+ 30	+26,101
New York City (5/30/84)	63,195	– 158	+ 5,101

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/23/84)	605,198	+ 139	+87,981
New York City (5/30/84)	139,511	+ 2,037	+19,547

Financial Markets

	Friday 6/8/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.25%	+ .10	+ 1.31
180-Day Bills†	11.25	+ .10	+ 1.99
Longest Bills†	12.00	–0–	+ 2.56
Recent Issues:			
$12\frac{5}{8}$s 5/31/86	12.75	–0–	
12s 3/31/88	13.20	– .10	
$13\frac{1}{8}$s 5/15/94	13.45	– .15	
$13\frac{1}{4}$s 5/15/14	13.42	– .13	
Municipals:			
Bond Buyer–20 Bond Index* (6/7/84)	10.78%	– .29	+ 1.09
Blue List Total ($ Million)	$1,136	– $242	– $144
30-Day Visible Supply ($ Million)	$2,021	– $155	– $394
Total	$3,157	– $397	– $538
Corporates:			
Moody's Aa Composite (6/7/84)	14.34%	– .13	+ 2.13
30-Day Visible Supply ($ Million)	$ 260	– $150	– $640
Stocks:			
Dow-Jones Averages:			
Industrials	1,131.25	+ 6.90	– 64.86
Transportation	477.67	– .42	– 95.27
Utilities	124.37	–0–	– 2.43
65 Stocks	439.82	+ 1.49	– 39.66
Standard and Poor's 500 Stocks	155.17	+ 1.93	– 7.51
N.Y.S.E. Composite Index	89.33	+ 1.18	– 5.12
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,996	– 5,297	– 2,834

* 46% Taxable equivalent 19.96%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/8/84	Week Ago
Overnight	10.44%	9.69%
1 month	11.00	10.75
3 month	11.44	11.63
6 month	12.19	12:38
1 year	13.13	13.38

EURODOLLAR BONDS

Average Yield		
Medium Term (5 to 7 yrs.)	13.40%	13.00%
Long Term (7 to 15 yrs.)	13.70	13.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/8/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01818	55.01
Canada	.7695	1.2996
Denmark	.1010	9.8975
France	.1206	8.2925
Germany	.3712	2.6940
Italy	.0005983	1671.50
Japan	.004316	231.70
Mexico	.004938	202.50
Netherlands	.3291	3.0385
Switzerland	.4451	2.2468
U.K.	1.3963	.7162

The Road From The Summit . . .

Those who look for immediate results from last week's London Summit Conference will once again be disappointed. Nonetheless, it would be shortsighted to dismiss the meeting as just another media event. As with most sophisticated political discussions, what is left unsaid or is touched upon tangentially is as important as what is actually said. Reading between the lines of final Summit statements can be revealing.

Certainly the formal agenda contained a number of important items which reflected the major concerns of the seven participants. But beyond this, the Summit meeting provided an opportunity for private informal discussions to take place in which ideas were advanced, the reactions to them measured and then further refined so that at some future date, they will more likely find a consensus. This is an essential part of the international political and economic process—the identification and exploration of areas of mutual agreement.

Since World War II most of the chief economic problems either have been common to all the major industrial countries, or they have been U.S. domestic problems which have international ramifications. This was especially true at this Summit meeting. While this country's vigorous upswing has already stimulated recovery elsewhere, the U.S. budget deficit, high interest rates and the strong dollar could well undermine the expansion here, thus cutting it short abroad.

Interest rates are again rising from the earlier lows. In fact, in real terms interest rates are approaching the peaks of the last recession. This is the major reason why the dollar is overvalued, causing problems for U.S. export trade as well as for borrowers abroad who must make payments in dollars. What is more, although inflation has slowed dramatically both in the U.S. and abroad, there are fewer and fewer who believe that it will continue to ebb or at least stay at present levels, in spite of strong and broadly-based evidence to the contrary.

. . . Is Neither Straight Nor Smooth

But President Reagan is not the only person who came to last week's meeting with an unfinished economic agenda. Many of the commitments made by all of the national leaders at last year's Summit meeting have not been met. Last year, the Williamsburg declaration took a firm stand on reducing structural budget deficits particularly by limiting the growth of government expenditures. This goal remains beyond the political realities in most of the member countries which are still early in their cyclical upswings. Just as important, not much progress has been made worldwide in the much publicized commitments to halt protectionism and to dismantle trade barriers. Indeed, the pressures toward protectionist policies continue to surge—particularly in those industrial countries which, in spite of resurgent growth, still suffer high rates of unemployment. Evidence of real progress toward meeting some of the other less tangible goals is also elusive, one example—efforts to promote a convergence of national economic performances and the pursuit of a balanced set of economic policies.

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VOLUME XXI, NUMBER 24

Strained Farm Finances

Although the Department of Agriculture now expects farm incomes—which include depreciation and inventories—to expand by more than 50 percent this year, net cash incomes, which are a more immediate measure of farmers' well-being, are not likely to rise much, if at all. This is because an increase in both the price and quantity of production inputs will substantially boost farmers' outlays compared with 1983. Owing to increasing demand because of stepped-up planting this year, prices which farmers pay for their production items are expected to post relatively sharp increases this year. Seed prices jumped by 8.5 percent in May, year-over-year. Fertilizer prices rose 6.5 percent after falling five percent last year and remaining unchanged in 1982. Feed costs advanced by 6.7 percent, and financing costs which dipped last year, have recently resumed their upward climb.

And while the government expects farmers to increase purchases of production items by about ten percent this year to about $120 billion, farm machinery dealers are already scaling down their expectations for this year's sales. Earlier they had thought that farmers, newly flush with cash from the sales of PIK grains, would be crowding their showrooms, buying new equipment in anticipation of putting most of the fallow acreage back into production. Instead, farmers appear to be paying off old debts rather than acquiring new, often purchasing used equipment when possible.

Total tractor sales for the first four months of this year were up only 8.5 percent from last year's depressed levels. The largest gains were seen in smaller models—under 40 horsepower—which are generally produced outside the United States, although often by U.S. firms. In the same period, tractors over 100 horsepower rose only one percent. Sales of combines continued their plunge in the first four months of the year, falling 35 percent from a year ago. But even the uptick in sales of tractors should provide some relief for manufacturers who have seen their market plummet by more than 50 percent since 1979. The industry is currently operating below 50 percent of capacity, with inventories swollen to a 12-month supply—more than double their normal level.

Depressed Land Values

An important factor inhibiting large equipment purchases is that farmers are still pinched by large debt burdens, acquired at lofty interest rates, as a result of overambitious borrowing in the late 1970s. The Farm Credit Administration reports that borrower bankruptcies and loan liquidations under its programs have increased in 1984 compared with the same period a year ago. Nearly 1.4 percent of Federal Land Bank loans outstanding were under liquidation in the first quarter of 1984 compared with an average of 0.8 percent in 1983's first quarter. Similarly, about 2.7 percent of short- and intermediate-term loans extended by Production Credit Associations were delinquent in the first quarter, up from 2.2 percent a year ago.

What is more, one of the farmers' biggest assets—real estate—continues to depreciate. Reduced farm profitability in general and increased farm bankruptcies in particular have added to the land available for sale, while high interest rates have cut buyer demand. The average value of an acre of U.S. farmland, including buildings, fell this year for the third year in a row. This is the longest sustained decline since 1933.

Iowa, the worst case, saw its land values plummet by nearly 30 percent in the past three years, with Ohio close behind. Indiana, Nebraska and Illinois all posted declines of between 20 and 25 percent. On the other hand, 20 of the 48 contiguous states saw their farmland values rise in the past three years. Texas posted a 31 percent appreciation, with California and all of the New England States—Maine, Rhode Island, Connecticut, Massachusetts, New Hampshire and Vermont—posting increases exceeding ten percent.

Lower Exports

The prospects for agricultural exports are not encouraging to farmers either. While the outlook for economic growth of most of the major importers

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of U.S. agricultural products is favorable, large crop supplies outside the United States and strong competition from foreign exporters, in addition to the high value of the dollar, will continue to limit exports. According to the Department of Agriculture, export volume is estimated to fall by two percent in fiscal 1984 compared with the previous year.

Importantly, U.S. soybean exports are expected to decline 16 percent, year-over-year, paced by sharply reduced demand from Canada, Japan and Western Europe. Wheat and flour exports should remain relatively unchanged, with coarse grain shipments up only about two percent. On the other hand, U.S. exports of cotton may rise more than 30 percent. Production problems in such traditional competitor countries as Pakistan and the U.S.S.R. have opened up opportunities for U.S. cotton producers.

Higher Food Prices

Meanwhile, higher farm products' prices are helping farmers to regain some of their financial strength. Food prices at grocery stores registered a 3.3 percent advance in the six months ending in April, surpassed only by the ever-increasing cost of medical care. And while this runup may be temporarily over, since it primarily reflected the effects of this winter's

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit	6/13/84		
U.S. Gov'ts and Agencies			
Owned Outright & RPs	163.269	+ .837	+13.455
Loans to Depository Inst.	2.508	− .623	+ .697
Float	.470	− .111	− 1.016
Total Reserve Bank Credit	174.525	+ .224	+13.176
Treasury Deposits with			
Federal Reserve Banks	3.311	− 1.393	+ .180
Currency in Circulation	174.408	+ .675	+13.445
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	115.446	+ 1.670	+ 5.301
	6/6/84		
Member Bank Reserves:			
Total Reserves Held	35.550	− .262	+ 1.874
Excess (Deficiency)	.489	− .129	− .135
Net Borrowed Reserves	2.386	− .522	+ 2.663
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (6/4/84)	545.2	+ 7.4	+ 6.9
M2 (May '84)	2,259.4	+ 6.6	+ 7.5
M3 (May '84)	2,814.8	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/15/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.25%	11.08%	11.86%
* Federal Agencies	10.73	11.20	12.04
* Project Notes—Taxfree (46% Taxable Equivalent)	10.00	10.56	11.67
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.10	11.80	12.85

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.70%	Jul.	10.80%
15- 29 days	10.75	Aug.	10.80
30- 59 days	10.65	Sep.	10.83
60- 89 days	10.50	Oct.	11.05
90-179 days	10.30	Nov.	11.28
180-239 days	10.25	Dec.	11.20
240-270 days	10.25		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	10.80%		
90-120 days	10.90	Effective Rate	11.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,542	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,606	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.8	5.0	2.6
Change in Consumer Prices (new series)*	Apr '84	6.0%	2.4%	8.4%
Change in Producer Prices*	May '84n	0.0%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	May '84	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force†	May '84	7.5%	7.8%	10.1%
Personal Income*	Apr '84	$ 2,957	$ 2,942	$ 2,689
Leading Indicators Composite Index (1967=100)†	Apr '84	167.8	166.9	152.5
Industrial Production Index (1967=100) †	May '84n	163.2	162.5r	144.4
Net Change in Consumer Installment Credit †	Apr '84n	$ 6.41	$ 5.87	$ 2.04
U.S. Merchandise Trade Balance †	Apr '84	−$ 12.19	−$ 10.26	−$ 4.73
Plant and Equipment Expenditures* ‡	3rd Q'84n	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Apr '84	1,963	1,645	1,549
New Construction Expenditures*	Apr '84	$ 302.5	$ 302.0	$ 247.4
Total Business Inventories †	Apr '84n	$ 540.9	$ 532.8r	$ 500.3
Total Business Sales †	Apr '84n	$ 404.6	$ 401.9r	$ 351.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
‡Series has been redefined.

unusually severe weather—which exerted upward pressure mostly on fruit and vegetable prices—it would appear that they are poised for another jump, this time to be led by increasing meat prices. Since food represents nearly one-fifth of consumer spending, these price hikes will undoubtedly dent household budgets.

Several agricultural commodities' prices have soared at the farm gate since last year, primarily due to 1983's government-sponsored acreage reduction program. Although on average, prices that farmers received for their products in May were only five percent above year-ago levels, prices of oilbearing crops, which include soybeans, jumped nearly 40 percent, while cotton prices increased 17 percent. Feed grain prices advanced more than ten percent, pushed up by higher corn prices. However, most livestock producers have not been able to successfully pass these price increases on. Unfavorable profit margins caused mostly by expensive feed have forced ranchers to send more animals to slaughter, which has swelled supplies in the marketplace and so far restrained red meat prices. Cattle prices fell by more than three percent in May, year-over-year, while hog prices rose only four percent, reflecting a sharp drop in inventories, possibly as high as ten percent year-over-year.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (5/30/84)	152,884	+ 1,940	+ 7,652
New York City (6/6/84)	33,266	+ 598	+ 309
Commercial Paper (6/6/84)	213,509	– 1,209	+42,594

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/84)	239,856	– 735	+23,436
New York City (6/6/84)	64,118	+ 958	+ 7,030

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/84)	607,593	+ 2,143	+82,642
New York City (6/6/84)	138,348	– 1,163	+21,148

Financial Markets

	Friday 6/15/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.25%	–0–	+ 1.15
180-Day Bills†	11.05	– .20	+ 1.65
Longest Bills†	11.85	– .15	+ 2.20
Recent Issues:			
$12^{5}/_{8}$s 5/31/86	12.60	– .15	
12s 3/31/88	13.00	– .20	
$13^{1}/_{8}$s 5/15/94	13.20	– .25	
$13^{1}/_{4}$s 5/15/14	13.15	– .27	
Municipals:			
Bond Buyer–20 Bond Index* (6/14/84)	10.59%	– .19	+ 1.21
Blue List Total ($ Million)	$1,082	– $54	+ $ 80
30-Day Visible Supply ($ Million)	$1,996	– $25	+ $712
Total	$3,078	– $79	+ $792
Corporates:			
Moody's Aa Composite (6/14/84)	14.26%	– .08	+ 2.18
30-Day Visible Supply ($ Million)	$ 290	+ $30	– $385
Stocks:			
Dow-Jones Averages:			
Industrials	1,086.90	– 44.35	– 155.29
Transportation	458.02	– 19.65	– 123.10
Utilities	122.30	– 2.07	– 6.76
65 Stocks	423.90	– 15.92	– 69.09
Standard and Poor's 500 Stocks	149.03	– 6.14	– 20.10
N.Y.S.E. Composite Index	86.17	– 3.16	– 11.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	77,372	– 5,624	– 22,760

* 46% Taxable equivalent 19.61%.

† Bond equivalent.

International Rates

	Friday 6/15/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.25%	10.44%
1 month	11.31	11.00
3 month	11.44	11.44
6 month	12.19	12.19
1 year	13.13	13.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.30%	13.40%
Long Term (7 to 15 yrs.)	13.60	13.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/15/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01797	55.65
Canada	.7693	1.2998
Denmark	.1002	9.9825
France	.1190	8.4025
Germany	.3658	2.7340
Italy	.0005896	1696.00
Japan	.004296	232.75
Mexico	.005222	191.50
Netherlands	.3248	3.0785
Switzerland	.4391	2.2775
U.K.	1.3800	.7246

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 25, 1984 VOLUME XXI, NUMBER 25

"Flash" GNP Estimate . . .

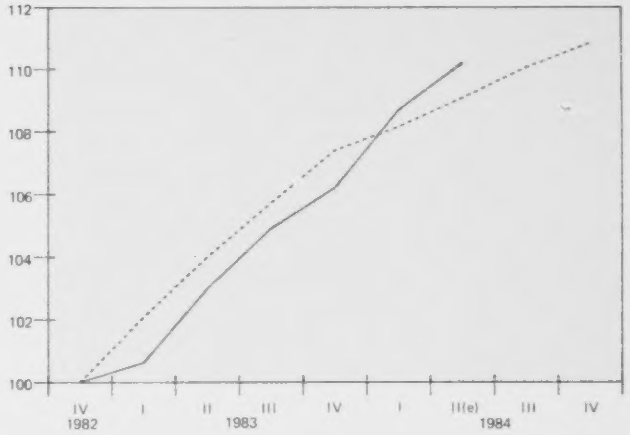
To those hoping for a slowing of U.S. economic growth because of concern about both an overheated economy and the inflationary implications of surging credit demands, the so-called "flash" estimate of real GNP growth in the second quarter provided some comfort, but not much. According to the Commerce Department's report, the economy expanded at an inflation-adjusted 5.7 percent annual rate in the quarter now ending, four percentage points below the upward revised 9.7 percent pace of the first quarter. Although the lower growth rate indicates a moderation of the momentum in the economy—typical for this stage in the business cycle—it also implies that business activity is both strong and better balanced than in the first quarter.

Strong gains in consumer spending have now combined with gains in business capital investment. Real final sales in the second quarter appear stronger than in the first quarter of 1984 when GNP growth mainly reflected a sharp rise in inventory investment. Real inventory investment increased by a record $22 billion in the first quarter—contributing 60 percent to the $36.8 billion rise in real GNP. Final sales, obviously, generated the remainder. Undoubtedly, the restocking of shelves is not completed, but the change in inventories was not as high in the April-June period as it was in the previous three months. Since slower inventory building reduces real GNP performance, for real GNP to grow at the current estimate of 5.7 percent, real final demand has to have increased at a higher rate.

. . . Depicts Continued Strong Growth . . .

At the year and a half mark, the ongoing recovery has proven to be stronger than the average of the seven previous postwar recoveries at similar points. Since the upturn in business activity began at the end of 1982, inflation-adjusted GNP has risen 10.2 percent, compared with an average of 9.1 percent at this stage of the other postwar expansions. The annual rate of rise in real GNP of 9.7 percent in this year's first quarter was more than double the rate of increase in the fifth quarter of typical business recoveries in the postwar era, while the flash estimate of 5.7 percent in the current quarter is also higher than the average rate of growth in the output of goods and services that occurred in the sixth quarter of these other postwar upturns.

REAL GROSS NATIONAL PRODUCT
CURRENT RECOVERY (LINE), AVG. OF 7 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



The flash report offers merely the government's first attempt to estimate the growth of the nation's output of goods and services. This estimate is based on preliminary data for about half of the quarter and is subject to extensive revisions as more and better data become available. But those who hope to find solace in the months ahead in potential downward revisions of the second quarter "flash" GNP figure, may be disappointed again. This is because in ten of the past 13 quarters, the Commerce Department has underestimated the strength of business activity in its flash estimates. In the third quarter of 1981, for example, the difference between the final revision and the flash estimate was as much as 4.1 percentage points. In the first quarter of this year, the flash report underestimated real output by 2.5 points.

DIGEST GOES BIWEEKLY

The Financial Digest will be published biweekly during July and August. The next issue will be dated July 9.

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. . . And Less Inflation

The good news about real activity was complemented by favorable news on inflation. The Commerce Department also reported that the implicit GNP price deflator—the broadest measure of inflation—is believed to be rising at a seasonally adjusted 2.8 percent annual rate in the second quarter, below the 3.9 percent clip of the first quarter—which was low to begin with. Meanwhile, the Labor Department also reported that producer prices remained unchanged in May for the second consecutive month while consumer prices advanced a modest 0.2 percent.

The stronger-than-expected pace of business activity in the current quarter not only disappointed many forecasters, but also unsettled the credit markets. Once again, Wall Street demonstrated that it prefers to march to the tune of a different drummer than Main Street, shrugging off what would normally be exceptionally good news: A business expansion which remains solidly on tract with only modest rates of inflation.

Personal outlays, which represent two-thirds of the GNP, remain the driving force behind current economic growth. Buoyed by gains in employment and income and only moderate inflation, consumer expenditures on durables, nondurables and services climbed a strong 1.1 percent in May, following a 1.6 percent surge in April. Although money market rates have climbed by 1.5 to 2.0 percentage points

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/20/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	163.649	+ .380	+12.285
Loans to Depository Inst.	3.421	+ .913	+ 1.709
Float	.754	+ .284	− .812
Total Reserve Bank Credit	176.524	+ 1.999	+13.311
Treasury Deposits with Federal Reserve Banks	4.081	+ .770	+ .243
Currency in Circulation	174.269	− .139	+13.616
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.336	− 1.110	+ 4.108
	6/20/84		
Member Bank Reserves:			
Total Reserves Held	37.170	+ 1.610	+ 2.135
Excess (Deficiency)	.783	+ .288	+ .374
Net Borrowed Reserves	.419	− 1.961	+ .302

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (6/11/84)	548.2	+ 8.1	+ 7.0
M2 (May '84)	2,259.6	+ 6.7	+ 7.5
M3 (May '84)	2,814.9	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

Offering Rates 6/22/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.90%	10.60%	11.15%
* Federal Agencies	10.60	11.40	12.10
* Project Notes—Taxfree (46% Taxable Equivalent)	9.91	10.56	11.76
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	11.75	12.15	13.00

‡Finance Company Paper—Prime	
5- 14 days	10.65%
15- 29 days	11.00
30- 59 days	10.90
60- 89 days	10.80
90-179 days	10.70
180-239 days	10.60
240-270 days	10.60

‡* Bankers' Acceptances	
Jul.	11.40%
Aug.	11.45
Sep.	11.45
Oct.	11.50
Nov.	11.60
Dec.	11.55

‡Industrial Paper—Prime	
30- 89 days	11.15%
90-120 days	11.25

†Federal Funds Effective Rate 11.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,550r	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,609r	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	9.7r	5.0	2.6
Change in Consumer Prices (new series)*	May '84n	2.4%	6.0%	4.8%
Change in Producer Prices*	May '84	0.0%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	May '84	105,288	104,402	99,762
Unemployment as % of Civilian Labor Force†	May '84	7.5%	7.8%	10.1%
Personal Income*	May '84n	$ 2,979	$ 2,961r	$ 2,719
Leading Indicators Composite Index (1967=100)†	Apr '84	167.8	166.9	152.5
Industrial Production Index (1967=100) †	May '84	163.2	162.5	144.4
Net Change in Consumer Installment Credit †	Apr '84	$ 6.41	$ 5.87	$ 2.04
U.S. Merchandise Trade Balance †	Apr '84	−$ 12.19	−$ 10.26	−$ 4.73
Plant and Equipment Expenditures* ‡	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	May '84n	1,782	1,990r	1,779
New Construction Expenditures*	Apr '84	$ 302.5	$ 302.0	$ 247.4
Total Business Inventories †	Apr '84	$ 540.9	$ 532.8	$ 500.3
Total Business Sales †	Apr '84	$ 404.6	$ 401.9	$ 351.0

*Seasonally adjusted annual rate.
‡Series has been redefined.

†Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

in the past six months, rates on personal loans remained virtually flat. In addition, use of credit remains low, relative to incomes. Thus, consumers have been able to tap their credit lines, boosting spending further.

On the other hand, today's high level of interest rates is having some braking effect. Such interest rate-sensitive sectors as housing and automobiles have already begun to slow. With fixed-rate conventional mortgage rates ratcheting to almost 15 percent in recent weeks, many would-be home-buyers are being priced out of the new home market. As a result, new single-family home sales declined in March and April and builders' inventories of unsold homes increased to a 6.2 months' supply. Not surprisingly, starts for the construction of single-family homes declined 8¼ percent in May. Diminished building activity has already translated to a decline in the production of construction supplies in May.

So, too, sales of U.S.-made cars are beginning to cool off. In the first ten days of June, sales of domestically-produced cars ran at a 7.8 million unit, seasonally adjusted pace, substantially below the 8.6 million unit annual rate for the month of May. And while the slowdown in sales may be attributed to continuing shortages of many popular models, it also reflects growing consumer concerns about rising interest rates that have begun to spread to new car loans.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (6/6/84)	153,170	+ 264	+ 6,775
New York City (6/13/84)	33,894	+ 628	+ 1,629
Commercial Paper (6/13/84)	217,626	+ 3,160	+47,258

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/6/84)	240,975	+ 1,177	+26,128
New York City (6/13/84)	63,771	– 347	+ 6,041

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/6/84)	608,137	+ 481	+86,417
New York City (6/13/84)	137,511	– 854	+18,204

Financial Markets

	Friday 6/22/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.33%	+ .08	+ 1.01
180-Day Bills†	11.41	+ .36	+ 1.82
Longest Bills†	12.31	+ .46	+ 2.50
Recent Issues:			
13s 6/30/86 (When Issued)	13.16	NA	
12s 3/31/88	13.55	+ .55	
13⅛s 5/15/94	13.77	+ .57	
13¼s 5/15/14	13.54	+ .39	
Municipals:			
Bond Buyer–20 Bond Index* (6/21/84)	10.56%	– .03	+ 1.18
Blue List Total ($ Million)	$1,114	+ $ 32	+ $ 10
30-Day Visible Supply ($ Million)	$2,257	+ $261	+ $1,165
Total	$3,371	+ $293	+ $1,175
Corporates:			
Moody's Aa Composite (6/21/84)	14.35%	+ .09	+ 2.24
30-Day Visible Supply ($ Million)	$ 272	– $ 18	– $ 505
Stocks:			
Dow-Jones Averages:			
Industrials	1,131.07	+ 44.17	– 110.62
Transportation	475.10	+ 17.08	– 114.19
Utilities	124.37	+ 2.07	– 4.04
65 Stocks	439.24	+ 15.34	– 55.49
Standard and Poor's 500 Stocks	154.46	+ 5.43	– 15.94
N.Y.S.E. Composite Index	89.07	+ 2.90	– 9.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,992	+23,620	+ 7,402

* 46% Taxable equivalent 19.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/22/84	Week Ago
Overnight	11.63%	11.25%
1 month	11.94	11.31
3 month	12.13	11.44
6 month	12.56	12.19
1 year	13.50	13.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	13.30%
Long Term (7 to 15 yrs.)	13.80	13.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/22/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01764	56.68
Canada	.7653	1.3067
Denmark	.09809	10.1950
France	.1169	8.5550
Germany	.3589	2.7865
Italy	.0005816	1,719.50
Japan	.004247	235.45
Mexico	.005222	191.50
Netherlands	.3187	3.1375
Switzerland	.4312	2.3190
U.K.	1.3625	.7339

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 9, 1984

VOLUME XXI, NUMBER 26

The Dollar's Record Performance . . .

Last week's sharp upturn in the external value of the dollar was further proof—if any is needed—of the continuing close relationship between interest rates and foreign exchange rates. Not only has the dollar appreciated by over eight percent on a trade-weighted basis in the last four months, but last week it exceeded its previous all-time high reached just last January. What is more, the dollar hit record levels against the British pound, French franc and Canadian dollar. But while the recent burst of dollar strength put an end to talk of a near-term decline in its foreign exchange value, it is also adding to the difficulties of U.S. business in competing in both domestic and foreign markets. Nor is any near-term relief for the U.S. exporting community likely. In fact, quite the opposite appears a better bet, especially in light of the persistence of massive Federal budget deficits and the Federal Reserve's inflation-fighting monetary policy—a recipe for higher interest rates ahead at a time of swelling private credit demands.

To be sure, one of the principal reasons for the dollar's strength has been the lofty level of domestic interest rates. And here, too, it does not appear that this situation will change anytime soon. For despite expectations that the pace of business activity would slow as inventory spending fades and home construction moderates, the prevailing perception is that economic activity still remains robust. What is more, this belief was given added credence with the release of a strong, "flash" estimate of real GNP growth in the second quarter (Financial Digest—June 25, 1984), and the report of another good-sized drop in the unemployment rate in June. Under these conditions, the Federal Reserve is unlikely to ease its grip on the money and credit reins anytime soon and, according to some, may even decide to do precisely the opposite: Tighten a notch further in order to forestall any prospect of business "overheating."

. . . Reflects Lofty Interest Rate Levels . . .

But even if the Fed's policy-setting Federal Open Market Committee decides to place further policy initiatives on hold at its upcoming July 16 and 17 meeting—in response to an expected slowing of business activity and still modest rates of inflation—the ongoing rise in economy-wide credit demands virtually ensures that interest rates will remain high for some time to come. For, in sharp contrast with last year, a major culprit behind this rise in borrowing needs has been a surge in business credit demands.

This is because with the growth of business cash flow beginning to taper off, and outlays for inventories, plant and equipment accelerating, the corporate financing gap is now running at an almost $40 billion annual rate—an unwelcome reversal of the $13 billion surplus which prevailed in 1983. Since a good chunk of this shortfall is being met by commercial banks and in the commercial paper market, it is hardly surprising that over the past 13 weeks commercial and industrial loans outstanding have increased at an almost 21 percent annual rate, while borrowings in the commercial paper market by corporate America have advanced at a 56 percent seasonally adjusted annual rate.

The current surge in business borrowings would not be so disruptive to interest rates if Treasury borrowings were receding as they usually do at this stage of the business cycle. However, they are not—or at least not by all that much. The Federal deficit continues to run at an approximately $170 billion annual rate, and Federal and Federal-related borrowings are now absorbing almost $1 in every $3 raised in the credit markets. This proportion is only slightly lower than that posted in fiscal 1983, when the budget deficit reached a record $195 billion—and more than three times larger than the average Treasury share posted in the past at this stage of the business cycle!

These developments, together with a sharp rise in the M1 money supply in recent weeks, have undoubtedly caused concern at the Fed. Indeed, notwithstanding the fact that the rate of inflation remains subdued and the liquidity difficulties of some advanced developing countries are only now beginning to recede, recent money and credit demand growth trends probably preclude any substantive monetary policy easing. What this means for interest rates, in turn, is that the combination of swelling credit demands, and a not entirely accom-

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modative Fed, should keep them at persistently lofty heights in the months ahead.

. . . But Burdens U.S. Exporters

While this may not be good news for the domestic economy, it should be for the dollar. The record-breaking strength of the dollar in the last few weeks, coming on top of an already overvalued currency, presents both benefits and costs to the United States and the global economy. On the benefit side, the burgeoning value of the dollar compared with the currencies of our trading partners plays an important role in restraining price increases in the U.S., particularly for those products where imports compete directly with domestically produced items. What is more, the flood of imports which has accompanied the upward movement of the dollar has been a principal factor leading to the recent improvement in the global economic environment. Both the resumption of significant real economic growth in the industrial countries which began in 1983 and last year's remarkable improvement in the trade performance of many of the developing countries can be at least partially traced to the sustained upward course of the dollar since mid-year, 1980.

But the cost of the skyrocketing dollar to the U.S. economy is enormous as well—principally in the erosion of U.S. foreign trade competitiveness. The volume of U.S. exports has declined steadily since 1980 because the strong dollar has made our exports

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/27/84	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	163.888	+ .239	+13.383
Loans to Depository Inst.	2.973	− .448	+ .871
Float	.964	+ .210	− .629
Total Reserve Bank Credit	176.728	+ .204	+14.020
Treasury Deposits with			
Federal Reserve Banks	3.401	− .680	− .457
Currency in Circulation	174.015	− .254	+13.585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.908	+ 2.572	+ 6.150
	6/20/84		
Member Bank Reserves:			
Total Reserves Held	37.145	+ 1.586	+ 2.110
Excess (Deficiency)	.775	+ .288	+ .366
Net Borrowed Reserves	.427	− 1.961	+ .310
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (6/25/84)	546.0	+ 7.9	+ 6.7
M2 (May '84)	2,259.6	+ 6.7	+ 7.5
M3 (May '84)	2,814.9	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 7/6/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.95%	10.40%	10.90%
* Federal Agencies	10.35	11.24	13.13
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	11.11	11.76
Negotiable Time CDs			
Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	11.85	12.35	13.35

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.90%	Aug.	11.30%
15- 29 days	11.10	Sep.	11.40
30- 59 days	11.15	Oct.	11.45
60- 89 days	11.15	Nov.	11.55
90-179 days	10.75	Dec.	11.65
180-239 days	[illegible].75	Jan.	11.60
240-270 days	10.65		

‡Industrial Paper—Prime			
30- 89 days	11.25%	†Federal Funds	
90-120 days	11.40	Effective Rate	11.15%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,550	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,609	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	9.7	5.0	2.6
Change in Consumer Prices (new series)*	May '84	2.4%	6.0%	4.8%
Change in Producer Prices*	May '84	0.0%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Jun '84n	105,748	105,288	100,743
Unemployment as % of Civilian Labor Force†	Jun '84n	7.1%	7.5%	10.0%
Personal Income*	May '84	$ 2,979	$ 2,961	$ 2,719
Leading Indicators Composite Index (1967=100)†	May '84n	168.2	168.3r	154.4
Industrial Production Index (1967=100)†	May '84	163.2	162.5	144.4
Net Change in Consumer Installment Credit†	Apr '84	$ 6.41	$ 5.87	$ 2.04
U.S. Merchandise Trade Balance†	May '84n	−$ 8.84	−$ 12.19	−$ 6.75
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	May '84	1,782	1,990	1,779
New Construction Expenditures*	May '84n	$ 310.4	$ 305.0r	$ 254.9
Total Business Inventories†	Apr '84	$ 540.9	$ 532.8	$ 500.3
Total Business Sales†	Apr '84	$ 404.6	$ 401.9	$ 351.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

less competitive when priced in terms of foreign currencies. For example, the volume of U.S. exports declined by almost 20 percent between 1980 and 1983 while in the same period the dollar appreciated on a trade-weighted basis by over 43 percent. There has also been a sustained loss in world market share by the United States. Between 1981 and 1983, U.S. exports fell from 12.9 percent to 12.1 percent of total world exports.

As U.S. exports have declined, imports into this country have expanded at a rapid rate. In 1983 the value of imports increased by over 11 percent from the year before in real terms and, in spite of a brief drop in the trade-weighted value of the dollar early this year, imports from January through May were almost 35 percent above the same period in 1983. Last year, the United States received over 15 percent of world imports compared with 13.8 percent the year before.

The flood of imports has resulted in increasing market penetration by foreign products into what were traditionally considered to be markets for domestically produced goods—resulting in a loss of jobs and corporate profits for this country. At the same time, jobs and profits have also been lost as U.S. exports have become increasingly priced out of foreign markets. Thus, American exporters face a two-way squeeze as a result of their increasing difficulties in competing on a price basis in either domestic or international marketplaces.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (6/20/84)	154,260	– 248	+ 6,961
New York City (6/20/84)	34,118	+ 224	+ 1,943
Commercial Paper (6/20/84)	217,749	+ 123	+44,828

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/20/84)	243,084	+ 2,216	+26,953
New York City (6/20/84)	64,432	+ 611	+ 6,174

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/20/84)	611,620	+ 4,189	+90,211
New York City (6/20/84)	138,801	+ 1,298	+21,286

Financial Markets

	Friday 7/6/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.40%	+ .20	+ 1.00
180-Day Bills†	11.15	– .05	+ 1.35
Longest Bills†	12.05	– .20	+ 1.95
Recent Issues:			
13s 6/30/86	13.10	– .05	
$13^{5}/_{8}$s 6/30/88	13.50	– .12	
$13^{1}/_{8}$s 5/15/94	13.75	– .05	
$13^{1}/_{4}$s 5/15/14	13.55	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (7/5/84)	10.69%	– .07	+ 1.14
Blue List Total ($ Million)	$1,436	+ $ 24	+ $415
30-Day Visible Supply ($ Million)	$2,001	+ $129	+ $189
Total	$3,437	+ $153	+ $604
Corporates:			
Moody's Aa Composite (7/5/84)	14.34%	– .11	+ 2.06
30-Day Visible Supply ($ Million)	$ 597	– $365	+ $231
Stocks:			
Dow-Jones Averages:			
Industrials	1,122.57	– 9.83	– 84.66
Transportation	474.69	+ .51	– 100.59
Utilities	125.67	+ 1.39	– 3.62
65 Stocks	437.88	– 1.38	– 46.02
Standard and Poor's 500 Stocks	152.24	– .94	– 15.56
N.Y.S.E. Composite Index	87.90	– .48	– 8.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	67,870	–12,674	– 11,345

* 46% Taxable equivalent 19.80%.

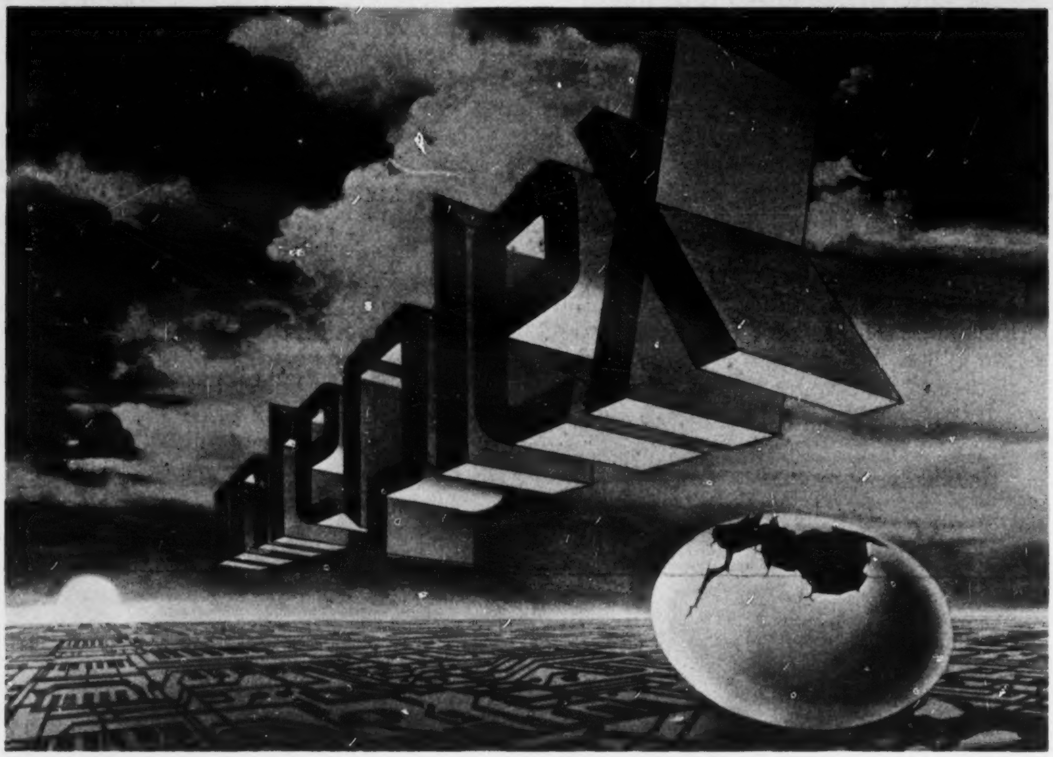
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/6/84	Week Ago
Overnight	11.00%	10.88%
1 month	11.75	11.75
3 month	12.25	12.13
6 month	12.81	12.63
1 year	13.63	13.56
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.60%	13.60%
Long Term (7 to 15 yrs.)	13.80	13.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/6/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01739	57.50
Canada	.7540	1.3263
Denmark	.09654	10.3580
France	.1151	8.6885
Germany	.3534	2.8300
Italy	.0005751	1,738.80
Japan	.004149	241.05
Mexico	.005076	197.00
Netherlands	.3132	3.1930
Switzerland	.4201	2.3805
U.K.	1.3225	.7561



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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JULY 23, 1984 VOLUME XXI, NUMBER 27

Fears Of Either Rapid Inflation . . .

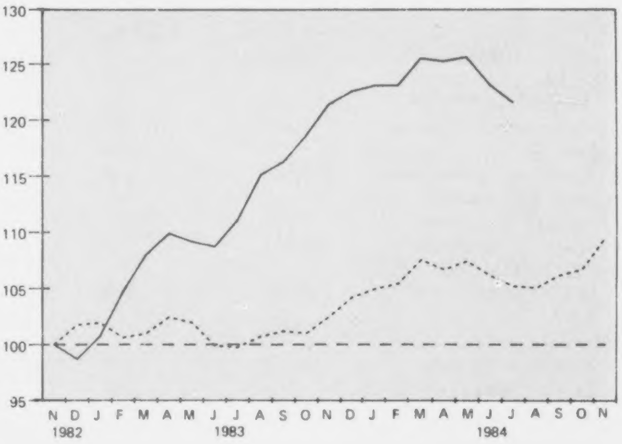
With the release of the Labor Department's report showing that producer prices in June remained unchanged for the third consecutive month, new concerns are developing in the financial markets. Besides longstanding fears of renewed double-digit inflation, there now are fears of deflation. Those who worry that inflation will race ahead believe that the economy is expanding so fast that it will soon run into shortages which will inevitably lead to higher prices. On the other hand, those concerned with deflation point to falling prices of raw industrial commodities, the soaring value of the dollar in the foreign exchange markets, and to the sharp drop in the price of gold as portending a period of actual declines in prices, with its attendant consequences.

These opposing views of escalating inflation and deflation stand in sharp contrast with the placid behavior of the major price measures. During the latest 12 months, producer prices advanced by 2.2 percent, while consumer prices were rising 4.2 percent. Meanwhile, the Commerce Department has also reported that the implicit GNP deflator—the broadest measure of inflation—is believed to have risen at a seasonally adjusted annual rate of 2.8 percent in 1984's second quarter.

A number of factors indicate that we are not on the verge of double-digit inflation. Most important, employers' wage bills are rising much more slowly in this economic expansion than they have, on average, in the past. Combined with increased productivity, labor costs per unit of output in many sectors of the economy are either flat or declining. Since labor costs comprise two-thirds of business costs, this trend alone portends moderate inflation.

Another important part of production costs—energy—has been declining. Surprisingly, the conflict in the Persian Gulf has pushed oil prices down in spot markets because some members of OPEC have decided that these hostilities have relieved them from adhering to their production quotas, thus allowing an increase in output. As a result, gasoline prices today are, on average, more than seven cents below their year-ago levels. Moreover, the combination of increased non-OPEC sources of oil, energy substitution and conservation efforts has reduced the dominance of OPEC in international markets and weakened significantly OPEC's ability to dictate world oil prices.

TUESDAY SPOT PRICE INDEX – RAW INDUSTRIALS
CURRENT RECOVERY (LINE), AVG. OF 3 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



The high value of the U.S. dollar has also subdued the rate of inflation. The Federal Reserve estimates that, all other things being equal, a ten percent appreciation in the external value of the dollar reduces the rate of consumer price inflation by about 1½ points over two to three years. The strong dollar, which now stands 66 percent above its trade-weighted value of mid-1980, has profoundly affected both business and labor in the U.S. It has opened markets previously closed to foreign competition, while at the same time, resulting in a shrinkage of our exports. This overabundance of goods in the U.S. has reduced the ability on the part of many U.S. companies to raise their selling prices—not to mention labor's ability to hike wages.

. . . Or Deflation . . .

On the other hand, recent declines in spot commodity prices and of gold have evoked fears of deflation. In turn, this has led to calls for the Federal Reserve to loosen its grip on money and credit. However, deflation, defined as a fall in the general price level, is usually associated with a *contraction* of the supply of money and credit.

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Such a drop in prices is generally accompanied by falling levels of output and increasing unemployment; it tends to take place in the declining stage of the business cycle.

The current economic environment does not give any credence to the deflationary thesis, at least not in the textbook sense. In the last year and a half, real GNP has grown at the fastest rate in the postwar era, pushed by record rates of fiscal and monetary stimulus.

The fears of deflation apparently were spurred by recent declines in basic commodities prices. Since their latest peak reached in mid-May, prices of these sensitive materials have fallen nearly four percent. Although they usually rise during economic recoveries, these commodities also tend to be volatile, and declines in the overall index are not unusual even in a period of strong economic growth (see chart on page 1). In the expansion following the 1973-75 recession, for example, raw industrial prices declined seven percent between July and November, 1976, resumed their climb—and then fell ten percent in the period between March and November, 1977. Currently, raw industrial prices are still more than 24 percent above their low point reached at the end of the last recession. Their recent decline has erased only one-eighth of the gain posted since these prices bottomed out in December, 1982.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/18/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	162.596	− .593	+ 8.099
Loans to Depository Inst.	5.891	+ 1.067	+ 4.655
Float	.728	− 1.026	− .845
Total Reserve Bank Credit	177.960	− .866	+11.761
Treasury Deposits with Federal Reserve Banks	3.415	− 1.071	+ .106
Currency in Circulation	176.844	− .555	+14.507
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.622	+ .144	+ 4.911
	7/18/84		
Member Bank Reserves:			
Total Reserves Held	37.352	+ .424	+ 1.549
Excess (Deficiency)	.455	− .603	+ .129
Net Borrowed Reserves	.077	+ .258	− .194
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (7/9/84)	546.2	+ 7.0‡	+ 6.3‡
M2 (June '84)	2,271.5	+ 7.4	+ 7.3
M3 (June '84)	2,835.3	+ 10.1	+ 9.3
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/20/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.60%	10.00%	10.40%
* Federal Agencies	10.95	11.46	12.85
* Project Notes—Taxfree (46% Taxable Equivalent)	10.19	10.74	12.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.30	11.45	11.60

‡Finance Company Paper—Prime	
5- 14 days	10.80%
15- 29 days	10.95
30- 59 days	11.05
60- 89 days	10.90
90-179 days	10.80
180-239 days	10.50
240-270 days	10.50

‡* Bankers' Acceptances	
Aug.	11.10%
Sep.	11.15
Oct.	11.25
Nov.	11.30
Dec.	11.35
Jan.	11.42

‡Industrial Paper—Prime	
30- 89 days	11.10%
90-120 days	11.20

†Federal Funds Effective Rate	11.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,550	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,609	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	9.7	5.0	2.6
Change in Consumer Prices (new series)*	May '84	2.4%	6.0%	4.8%
Change in Producer Prices*	Jun '84n	0.0%	0.0%	4.8%
Civilian Employment (Thousands of Persons)†	Jun '84	105,748	105,288	100,743
Unemployment as % of Civilian Labor Force†	Jun '84	7.1%	7.5%	10.0%
Personal Income*	Jun '84n	$ 3,005	$ 2,981r	$ 2,734r
Leading Indicators Composite Index (1967=100)†	May '84	168.2	168.3	154.4
Industrial Production Index (1967=100)†	Jun '84n	163.6	162.8r	146.4
Net Change in Consumer Installment Credit†	May '84n	$ 10.23	$ 6.41	$ 2.27
U.S. Merchandise Trade Balance†	May '84	−$ 8.84	−$ 12.19	−$ 6.75
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jun '84n	1,900	1,805r	1,743
New Construction Expenditures*	May '84	$ 310.4	$ 305.0	$ 254.9
Total Business Inventories†	May '84n	$ 545.9	$ 541.1r	$ 501.0
Total Business Sales†	May '84n	$ 412.3	$ 405.9r	$ 360.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . Are Greatly Exaggerated

Several factors have contributed to the recent declines in commodities prices. On the demand side, the recoveries in Europe and Japan have so far been much more subdued than in the U.S., reducing their need for raw materials. In addition, the soaring dollar is cutting worldwide demand for commodities even further because the rest of the world has to pay more in local currencies for those internationally traded commodities that are priced in U.S. dollars. Moreover, the combination of high interest rates and low inflation rates has forced producers to keep their inventories lean as well as discouraged speculative buying. This obviously has depressed the demand for many commodities. Finally, developing countries seeking to step up their exports to earn funds with which to service their external debts are producing more commodities, thus depressing prices further.

As for the price of gold, which many consider a barometer of inflationary expectations, its decline reflects, in part, an optimistic outlook for inflation. In addition, high interest rates increase the opportunity cost of holding gold. Far from indicating deflation, the decline in gold prices reflects the sophistication of investors, moving into the many high-yielding financial asset alternatives currently available. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (7/4/84)	155,980	– 871	+ 9,237
New York City (7/11/84)	34,582	– 263	+ 1,643
Commercial Paper (7/11/84)	222,122	+ 1,837	+49,689

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/4/84)	244,624	+ 1,033	+28,079
New York City (7/11/84)	64,278	– 549	+ 5,530

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/4/84)	619,625	+ 6,683	+91,423
New York City (7/11/84)	138,055	– 2,901	+18,909

Financial Markets

	Friday 7/20/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.53%	+ .11	+ 1.01
180-Day Bills†	11.24	+ .02	+ 1.32
Longest Bills†	11.94	– .16	+ 1.64
Recent Issues:			
13s 6/30/86	12.80	– .12	
$13\frac{5}{8}$s 6/30/88	13.10	– .16	
$13\frac{1}{8}$s 5/15/94	13.26	– .13	
$13\frac{1}{4}$s 5/15/14	13.10	– .07	
Municipals:			
Bond Buyer–20 Bond Index* (7/19/84)	10.36%	– .06	+ .84
Blue List Total ($ Million)	$1,133	– $ 96	+ $ 86
30-Day Visible Supply ($ Million)	$1,834	+ $521	– $1,061
Total	$2,967	+ $425	– $ 975
Corporates:			
Moody's Aa Composite (7/19/84)	14.12%	– .06	+ 1.69
30-Day Visible Supply ($ Million)	$ 400	– $427	– $ 20
Stocks:			
Dow-Jones Averages:			
Industrials	1,101.37	– 8.50	– 129.80
Transportation	451.75	– 11.52	– 127.31
Utilities	123.70	– 2.07	– 7.80
65 Stocks	426.40	– 5.84	– 65.01
Standard and Poor's 500 Stocks	149.55	– 1.33	– 19.34
N.Y.S.E. Composite Index	86.21	– .87	– 11.53
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,648	– 334	– 5,042

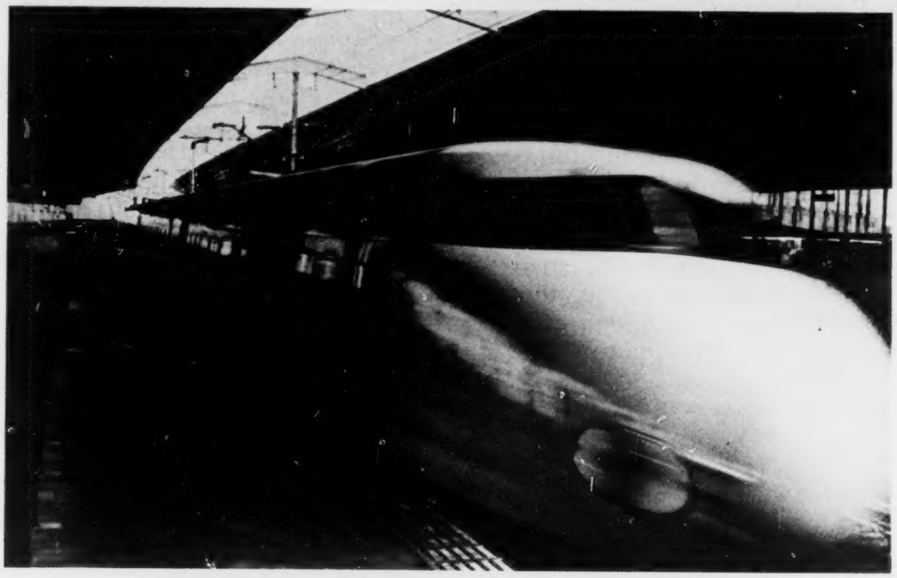
* 46% Taxable equivalent 19.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/20/84	Week Ago
Overnight	10.88%	10.19%
1 month	11.44	11.50
3 month	11.88	11.88
6 month	12.50	12.50
1 year	13.13	13.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.40%	13.50%
Long Term (7 to 15 yrs.)	13.70	13.70

FOREIGN EXCHANGE SPOT RATES **New York Opening (7/20/84)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01735	57.64
Canada	.7521	1.3296
Denmark	.09615	10.4000
France	.1143	8.7525
Germany	.3503	2.8550
Italy	.0005709	1,751.50
Japan	.004092	244.35
Mexico	.005128	195.00
Netherlands	.3104	3.220
Switzerland	.4139	2.4160
U.K.	1.3238	.7554



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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 6, 1984
VOLUME XXI, NUMBER 28

Corporate Profits Thrive . . .

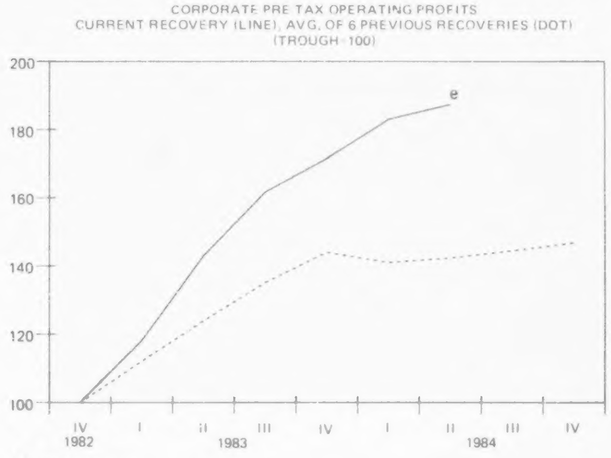
For most U.S. industries, a welcome development arising from the robust pace of business activity is the strong surge in corporate profits. This was made possible by the lowering of break-even points due to the modernization of production facilities, closings of inefficient plants and a tight rein on operating costs—especially wages and salaries. But that's not all. The ongoing surge in profits also results from a sharp rebound in sales, thus enabling U.S. companies to post one of the steepest earnings gains in the postwar era. Pre-tax profits are believed to have risen nearly 60 percent so far in this recovery, with the second quarter's jump around 20 percent, year-over-year.

Looking beneath the surface, the picture is even better than the top-line profit numbers suggest. For one thing, during periods of rapid inflation, much of the earnings of many firms include swollen "illusory" inventory profits, reflecting the rising value of stocks on hand. In fact, in early 1980, when inflation rates spiked upward, inventory profits alone represented as much as 22½ percent of pre-tax profits reported by corporate America. But because of the current low rate of price increases, these inflation-driven inventory profits have diminished and, in the past six quarters, have comprised the smallest proportion of corporate pre-tax profits in nearly 15 years. For another, the implementation of the Accelerated Cost Recovery System now allows for generous depreciation over a shortened period of time. This results in large depreciation charges being subtracted from earnings, artificially depressing the top-line profit numbers.

Operating profits—believed to be a more reliable gauge of profitability since they exclude phantom inventory profits and are not distorted by over- or under-depreciation charges—are estimated to be up nearly 90 percent from the depths of the last recession. This is more than double the average gain recorded during the same period in earlier postwar recoveries (see chart).

. . . Aided By Stronger Sales . . .

This profit performance is particularly impressive when you consider that it has occurred in a comparatively low inflation environment. Companies have not been able to beef up profit margins by raising prices as they did in past expansions because of consumer reluctance and foreign competition. Thus, businessmen have been forced to emphasize cost containment and depend on rising sales volumes.



(e) estimate

Stepping up efficiency in the workplace is essential if America's business is to continue to keep costs down and compete successfully with overseas rivals. It is therefore particularly good news that nonfarm productivity—the volume of goods and services generated by all persons engaged in the nonfarm sector per hour—continues to post healthy gains. It rose at a seasonally adjusted 3.3 percent annual rate in the second quarter, keeping pace with the average gain posted in the first six quarters of earlier postwar recoveries.

. . . And Cost Containment

But since labor costs represent two-thirds of business costs, probably the most important contributor to the improvement in the bottom line is the slowing in the rise of unit labor costs. Hourly compensation—which includes wages, salaries and employer contributions to employee benefit plans—increased at a 3.6 percent annual rate in the second quarter, compared with a 6.1 percent gain in the first. Reflecting the slowing of hourly compensation and faster productivity growth, unit labor costs

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rose only 0.3 percent during the second quarter, compared with three percent in the previous quarter.

One of the leaders in the second quarter's earnings gains was the automobile industry. Company profits were boosted by higher average prices as consumers shifted from smaller, more austere cars to larger, option-laden models. Although production fell by a five percent annual rate, following the first quarter's gain of seven percent, it was not due to a decline in demand, since the selling pace remained steady at 8.3 million units. Rather, several plants were closed for retooling and model changeovers earlier in the season than usual. One cloud hanging over the industry's future profitability is the current UAW contract negotiations. Although the union is stressing job security as one of the major bargaining issues, labor will undoubtedly demand big wage increases in an attempt to make up for the givebacks of previous years.

The good news from Detroit has spilled over to the downstream industries. The rubber and plastics industry posted sizable profit gains and is now producing 15 percent more than it did a year ago—well above the 12 percent all-industry rise in industrial production. The motor vehicles and parts industry has boosted its output 21½ percent from a year ago, with the production gain since the end of the recession totaling more than 60 percent.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/1/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.470	− 1.502	+ 5.615
Loans to Depository Inst.	7.460	+ .611	+ 6.149
Float	.343	− .234	− 1.253
Total Reserve Bank Credit	175.339	− .966	+11.102
Treasury Deposits with Federal Reserve Banks	4.179	+ .207	+ .155
Currency in Circulation	175.383	− .532	+13.492
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.046	− 1.097	+ 3.172
Member Bank Reserves:	8/1/84		
Total Reserves Held	36.187	− 1.089	+ 1.142
Excess (Deficiency)	.651	+ .258	+ .089
Net Borrowed Reserves	.236	+ .097	+ .124
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (7/23/84)	544.9	+ 8.4‡	+ 6.2‡
M2 (June '84)	2,272.3	+ 7.6	+ 7.3
M3 (June '84)	2,838.3	+ 10.6	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/3/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.40%	10.55%	10.65%
* Federal Agencies	11.45	11.75	12.15
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	11.11	12.13
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.30	11.60	11.95

‡Finance Company Paper—Prime

5- 14 days	10.00%
15- 29 days	10.00
30- 59 days	10.90
60- 89 days	10.80
90-179 days	10.70
180-239 days	10.50
240-270 days	10.50

‡* Bankers' Acceptances

Sep.	11.05%
Oct.	11.05
Nov.	11.05
Dec.	11.05
Jan.	11.05
Feb.	11.00

‡Industrial Paper—Prime

30- 89 days	11.05%
90-120 days	11.05

†Federal Funds Effective Rate 11.52%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84n	$ 3,646	$ 3,553r	$ 3,267r
Gross National Product (1972 Dollars)*	2nd Q'84n	$ 1,640	$ 1,611r	$ 1,525r
Percent Change, Annual Rate	2nd Q'84n	7.5	10.1r	9.4r
Change in Consumer Prices (new series)*	Jun '84n	2.4%	2.4%	2.4%
Change in Producer Prices*	Jun '84	0.0%	0.0%	4.8%
Civilian Employment (Thousands of Persons) †	Jul '84n	105,395	105,748	101,225
Unemployment as % of Civilian Labor Force†	Jul '84n	7.5%	7.1%	10.0%
Personal Income*	Jun '84	$ 3,005	$ 2,981	$ 2,734
Leading Indicators Composite Index (1967=100)†	Jun '84n	167.4	168.9r	157.3
Industrial Production Index (1967=100) †	Jun '84	163.6	162.8	146.4
Net Change in Consumer Installment Credit †	May '84	$ 10.23	$ 6.41	$ 2.27
U.S. Merchandise Trade Balance †	Jun '84n	−$ 8.91	−$ 8.84	−$ 4.89
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jun '84	1,900	1,805	1,743
New Construction Expenditures*	Jun '84n	$ 310.6	$ 311.3r	$ 264.1
Total Business Inventories †	May '84	$ 545.9	$ 541.1	$ 501.0
Total Business Sales †	May '84	$ 412.3	$ 405.9	$ 360.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

The recovery in the construction markets has boosted sales and profits in many related industries. For example, increased sales of new and existing homes, the huge backlog of pent-up replacement demand as well as the hot and humid weather which hit the East Coast this spring have caused purchases of home appliances to set records in the first half of this year. In particular, shipments of room air conditioners have nearly doubled from year-ago levels while movement of microwave ovens is up 75 percent.

Responding to the pickup in capital spending, the steel industry has staged a comeback, as higher shipment levels, higher prices and stringent emphasis on cost-cutting have helped at least some companies into the black. But the strong spending on construction and industrial machinery is no longer translating into orders for heavier steel the way it did in earlier months of this year. Instead, imports have been boosted; they now claim 24 percent of the U.S. market—an all-time high.

Not all industries have shared in the recovery. For example, most copper companies remain in the red as rising consumption of the metal was more than offset by extremely weak prices. For the past two years the industry has been battered by imports which now represent 25 percent of domestic consumption, up from 16 percent in 1982.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest	Change Since	
	Week	Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (7/18/84)	156,223	– 6	+10,008
New York City (7/25/84)	35,288	+ 613	+ 2,705
Commercial Paper (7/25/84)	223,861	+ 1,021	+50,933

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest	Change Since	
Weekly Reporting Large Commercial Banks	Week	Week Ago	Year Ago
Nationwide (7/18/84)	243,726	+ 292	+27,833
New York City (7/25/84)	64,441	– 85	+ 5,783
	Total Loans and Leases Gross Adjusted		
	Latest	Change Since	
	Week	Week Ago	Year Ago
Nationwide (7/18/84)	614,028	– 304	+89,268
New York City (7/25/84)	139,229	+ 1,538	+20,544

Financial Markets

		Change Since	
	Friday 8/3/84	Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.87%	+ .22	+ 1.12
180-Day Bills†	11.35	+ .17	+ 1.15
Longest Bills†	11.75	+ .04	+ 1.10
Recent Issues:			
12⅝s 7/31/86	12.37	– .25	
13⅝s 6/30/88	12.56	– .14	
13⅛s 5/15/94	12.64	– .20	
13¼s 5/15/14	12.54	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (8/2/84)	9.92%	– .27	+ .18
Blue List Total ($ Million)	$1,014	+$ 16	– $177
30-Day Visible Supply ($ Million)	$3,275	+$1,102	+ $232
Total	$4,289	+$1,118	+ $ 55
Corporates:			
Moody's Aa Composite (8/2/84)	13.59%	– .21	+ .75
30-Day Visible Supply ($ Million)	$ 555	–$ 95	– $100
Stocks:			
Dow-Jones Averages:			
Industrials	1,202.08	+ 87.46	+ 18.79
Transportation	525.67	+ 59.07	– 16.76
Utilities	126.49	+ 2.19	– 2.60
65 Stocks	468.51	+ 35.30	– 1.41
Standard and Poor's 500 Stocks	162.35	+ 11.16	+ 0.61
N.Y.S.E. Composite Index	93.23	+ 6.22	– 0.37
N.Y.S.E. Avg. Daily Vol. for Week (000's)	139,676	+52,748	+ 59,438

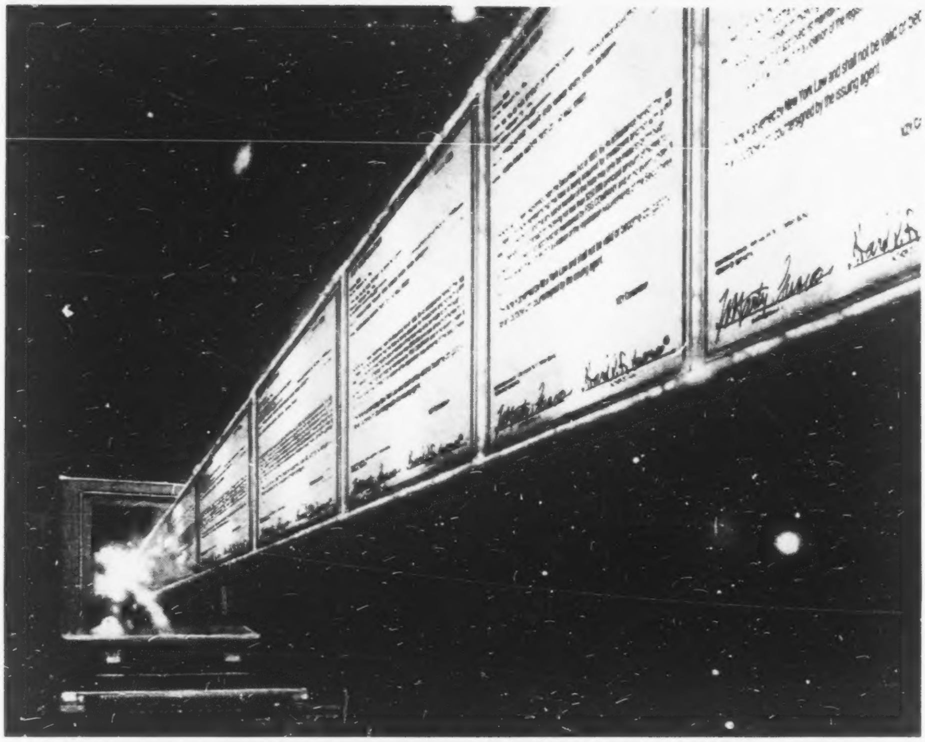
* 46% Taxable equivalent 18.37%.

† Bond equivalent.

International Rates

	Friday 8/3/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.31%	11.13%
1 month	11.38	11.31
3 month	11.63	11.69
6 month	11.94	12.13
1 year	12.31	12.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.85%	13.15%
Long Term (7 to 15 yrs.)	13.00	13.30

FOREIGN EXCHANGE SPOT RATES New York Opening (8/3/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01714	58.35
Canada	.7629	1.3108
Denmark	.09474	10.5550
France	.1130	8.8525
Germany	.3469	2.8830
Italy	.0005644	1,771.80
Japan	.004108	243.40
Mexico	.005128	195.00
Netherlands	.3072	3.2550
Switzerland	.4108	2.4343
U.K.	1.3200	.7576



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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 20, 1984
VOLUME XXI, NUMBER 29

The Powerful Dollar Boosts Imports . . .

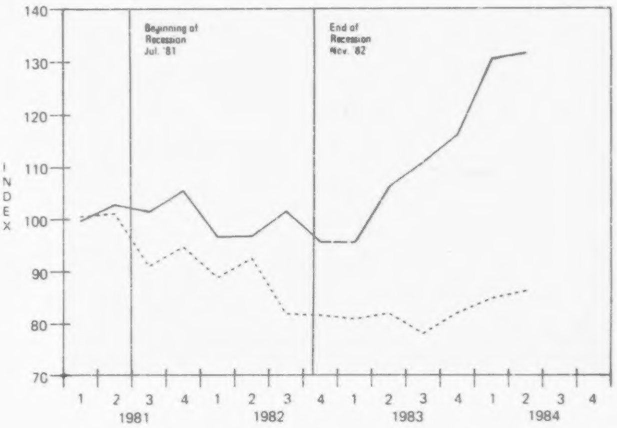
The spectacular appreciation of the dollar in terms of most other currencies which began in mid-1980 has been accompanied by an equally impressive deterioration in this country's external trade position. This deterioration accelerated in late 1982 as economic recovery got underway. Last year, the U.S. registered a record merchandise trade deficit of $61 billion (balance-of-payments basis)—68 percent higher than the year before. This year, the merchandise trade deficit is expected to exceed $100 billion. It is apparent that a major contributor to these massive trade deficits is the strong dollar which has risen by almost 65 percent on a trade-weighted basis from its low point in July, 1980.

The skyrocketing merchandise trade deficit has been attributed to two factors, a massive inflow of imports responding to the economic upturn and to eroding U.S. export competitiveness due to the strength of the dollar. Indeed, both of these problems—growing dependence on imports and declining export capability—have been seen as long-term secular trends in the U.S. economy, which the powerful dollar has exacerbated in the current recovery.

Certainly, the combination of a vigorous recovery and an appreciating currency has made merchandise imports exceptionally attractive to U.S. consumers and businessmen alike. Between the end of 1982 and June, 1984, merchandise imports increased by 35 percent in current dollars and 37 percent in real terms, adjusting for inflation. In the same period, the dollar rose 13 percent. Yet, during the 1981-82 recession, in spite of the fact that the dollar also grew by 13 percent on a trade-weighted basis, merchandise imports fell by ten percent in current dollars and six percent in real terms. Clearly, the strong dollar itself does not fully account for the recent flood of imports, although it has obviously reinforced the usual surge in imports which accompanies an economic recovery. Indeed, in every quarter since the beginning of the present economic upswing, the growth of real merchandise imports has exceeded the average of the six preceding postwar U.S. economic recoveries which have lasted 18 months or more. In June, the percent increase in real merchandise imports since the end of the recession was more than double the average increase in the six postwar recoveries.

There is evidence, however, that the swell of imports is beginning to slow, suggesting a response to a slowdown in the pace of the recovery. In the second quarter of this year, the seasonally adjusted level of merchandise imports increased by only 3.2 percent in current dollar terms over the previous quarter and only 0.7 percent in units. In the first quarter of this year, the nominal value and the volume of imports both increased over the previous quarter by a robust 12 percent.

INDEX OF 'REAL' U.S. IMPORTS [LINE] VS.
INDEX OF 'REAL' U.S. EXPORTS [DOT] (1980=100)



. . . And Exports Improve, Too . . .

U.S. merchandise exports peaked in both value and volume terms in early 1981. For the following 18 months, the trend of both of these data series was generally downward. This has tended to obscure the fact that since the third quarter of last year, these trends have been reversed and there has been an improvement in U.S. export performance both in value and volume. Nonetheless, both measures of export performance are still well below the peak levels of early 1981 (see chart). When the effects of inflation are removed, U.S. exports in the second quarter of 1984 were still about 15 percent below the second quarter of 1981. Since the beginning of

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the economic recovery in late 1982, however, real merchandise exports have risen by seven percent. In fact, the export sector is performing better during this recovery than it has on average in any of the six previous postwar recoveries which have lasted over 18 months. In the past, exports have tended to fall during the first year or more of U.S. economic upturns as the domestic economy's needs pre-empted demand from abroad. This recovery, however, has proven to be an exception to that pattern in spite of the dollar's strength which would have been expected to further depress exports.

The recent improvement in U.S. merchandise exports, though broad-based, has been uneven with some sectors benefiting more than others. For example, between the second quarter of 1983 and the second quarter of 1984, agricultural exports rose in value by 15 percent, while nonagricultural exports were up by almost 13 percent. Over the same period, capital goods (excluding automobiles), which cover a number of high-technology sectors where the U.S. dominates world exports such as computers, commercial aircraft and office equipment, were up almost eight percent. Such exports tend to be "long lead-time items" with a considerable period elapsing between order and delivery. This lagged relationship between demand and delivery in an important segment of U.S. merchandise exports can distort U.S. export patterns to some degree.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/15/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.937	− 1.258	+ 3.601
Loans to Depository Inst.	8.692	+ 1.410	+ 7.218
Float	.561	− .201	− .525
Total Reserve Bank Credit	176.100	− .064	+11.019
Treasury Deposits with Federal Reserve Banks	3.120	− .822	− .190
Currency in Circulation	176.795	+ .511	+13.670
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.120	+ 1.731	+ 8.374
	8/15/84		
Member Bank Reserves:			
Total Reserves Held	36.970	+ .802	+ 2.119
Excess (Deficiency)	.618	− .012	+ .170
Net Borrowed Reserves	.421	+ .163	+ .091

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (8/6/84)	547.3	+ 7.0‡	+ 5.7‡
M2 (July '84)	2,281.0	+ 6.8	+ 7.3
M3 (July '84)	2,858.1	+ 9.8	+ 9.8
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/17/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.10%	10.30%	10.50%
* Federal Agencies	10.67	11.40	11.80
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.48	12.22
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	11.45	11.65	11.95

‡Finance Company Paper—Prime	
5- 14 days	11.20%
15- 29 days	11.25
30- 59 days	11.25
60- 89 days	11.25
90-179 days	10.95
180-239 days	10.75
240-270 days	10.75

‡* Bankers' Acceptances	
Sep.	11.20%
Oct.	11.25
Nov.	11.22
Dec.	11.17
Jan.	11.15
Feb.	11.10

‡Industrial Paper—Prime	
30- 89 days	11.20%
90-120 days	11.20

†Federal Funds Effective Rate 11.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,646	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,640	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.5	10.1	9.4
Change in Consumer Prices (new series)*	Jun '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Jul '84n	3.6%	0.0%	0.0%
Civilian Employment (Thousands of Persons)†	Jul '84	105,395	105,748	101,225
Unemployment as % of Civilian Labor Force†	Jul '84	7.5%	7.1%	10.0%
Personal Income*	Jul '84n	$ 3,027	$ 3,003r	$ 2,745
Leading Indicators Composite Index (1967=100)†	Jun '84	167.4	168.9	157.3
Industrial Production Index (1967=100) †	Jul '84n	165.6	164.1r	149.7
Net Change in Consumer Installment Credit †	Jun '84n	$ 7.83	$ 10.23	$ 3.71
U.S. Merchandise Trade Balance †	Jun '84	−$ 8.91	−$ 8.84	−$ 4.89
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jul '84n	1,761	1,886r	1,793
New Construction Expenditures*	Jun '84	$ 310.6	$ 311.3	$ 264.1
Total Business Inventories †	Jun '84n	$ 546.1	$ 545.9r	$ 500.6
Total Business Sales †	Jun '84n	$ 413.6	$ 412.7r	$ 369.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . But The Trade Deficit Slows Growth

Perhaps a better idea of the recent improvement in U.S. export performance can be gained by comparing real export growth with real growth in the U.S. economy as a whole. In 1983, real GNP increased by 3.7 percent over 1982, while real merchandise exports declined 5.7 percent. In the first half of 1984, by contrast, the real economy grew at an annual rate of 8.6 percent, while real exports rose by 8.0 percent. It is apparent that although U.S. export performance since the beginning of the current economic recovery is modest when compared with the explosion of imports, it has kept the merchandise trade deficit smaller than it otherwise might have been. What is more, the fact that exports have risen during this cyclical upswing and the dollar is at record levels, brings into question both the effect of a strong currency in reducing U.S. competitiveness and particularly the simplistic conclusion that long-term U.S. export performance has deteriorated. What can be said, however, is that the strong dollar has increased the size of the usual import surge in a recovery but it does not appear to have had an equally strong effect in retarding exports.

Nonetheless, the fact that imports have been exceptionally strong and exports have not returned to pre-recession levels has slowed U.S. economic

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/1/84)	156,649	– 633	+10,901
New York City (8/8/84)	35,668	+ 386	+ 2,704
Commercial Paper (8/8/84)	219,954	– 1,682	+44,989

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/1/84)	244,686	+ 853	+27,547
New York City (8/8/84)	64,606	– 44	+ 5,663

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/1/84)	617,855	+ 2,227	+89,086
New York City (8/8/84)	137,402	– 1,795	+17,684

Financial Markets

	Friday 8/17/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.66%	–0–	+ 1.07
180-Day Bills†	11.28	+ .13	+ 1.29
Longest Bills†	11.74	+ .58	+ 1.46
Recent Issues:			
$12^{5}/_{8}$s 7/31/86	12.42	+ .26	
$13^{5}/_{8}$s 6/30/88	12.61	+ .22	
$12^{5}/_{8}$s 8/15/94	12.83	+ .30	
$12^{1}/_{2}$s 8/15/14	12.65	+ .25	
Municipals:			
Bond Buyer–20 Bond Index* (8/16/84)	10.02%	+ .21	+ .32
Blue List Total ($ Million)	$1,396	+ $223	+ $ 373
30-Day Visible Supply ($ Million)	$3,637	– $419	+ $1,354
Total	$5,033	– $196	+ $1,727
Corporates:			
Moody's Aa Composite (8/16/84)	13.45%	+ .09	+ .75
30-Day Visible Supply ($ Million)	$ 502	– $175	– $ 53
Stocks:			
Dow-Jones Averages:			
Industrials	1,211.90	– 6.19	+ 17.69
Transportation	514.71	– 4.83	– 19.02
Utilities	128.69	+ .32	– 2.19
65 Stocks	469.31	– 2.44	– 1.80
Standard and Poor's 500 Stocks	164.14	– 1.28	+ .16
N.Y.S.E. Composite Index	94.42	– .66	– .50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,416	–68,600	+ 6,566

* 46% Taxable equivalent 18.56%.

† Bond equivalent.

International Rates

	Friday 8/17/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.63%	11.50%
1 month	11.63	11.63
3 month	11.75	11.69
6 month	12.00	11.88
1 year	12.44	12.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.65%	12.50%
Long Term (7 to 15 yrs.)	12.65	12.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/17/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01732	57.73
Canada	.7672	1.3034
Denmark	.09569	10.4500
France	.1138	8.7865
Germany	.3493	2.8625
Italy	.0005650	1,770.00
Japan	.004146	241.20
Mexico	.005076	197.00
Netherlands	.3100	3.2253
Switzerland	.4188	2.3880
U.K.	1.3192	.7580

growth substantially. Between the fourth quarter of 1982 and the second quarter of 1984, real GNP increased by 10.9 percent. Had net merchandise exports (real merchandise exports less real merchandise imports) remained at fourth-quarter 1982 levels, real GNP growth in the same period would have been 13.1 percent.

The Dollar Hasn't Risen Everywhere

Not all currencies have depreciated against the dollar since 1980. From their weakest levels in the first quarter of that year, three Asian currencies have gained ground on the dollar. At the rates prevailing in mid-August, the Japanese yen has appreciated about three percent, and the Singapore and Brunei dollars (linked at par to one another) have risen about six percent. In marked contrast, all European currencies depreciated against the U.S. dollar with the German mark falling 32 percent, the pound sterling 39 percent, the French franc 48 percent, the Italian lira 46 percent and the Swiss franc 24 percent, all measured from their 1980 lows against the dollar.

The yen appears to have benefited from Japan's surging trade surplus in goods and services—which reached a record $21 billion in 1983 and might further soar to $30 billion this year. Japan's low inflation rate—a projected 2.5 percent this year after three percent in 1983, the lowest among the industrial countries in both years—has also boosted the yen.

The Singapore dollar, on the other hand, has been propelled by substantial inflows of foreign direct investment and short-term capital, the former responding to Singapore's hospitable business climate, and the latter pulled in by the country's high interest rates and low inflation rate—even lower than Japan's. These inflows continue, as in past years, to exceed Singapore's usually small deficit in goods and services trade, and have contributed to a rapid growth of international reserves.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, AUGUST 31, 1984

VOLUME XXI, NUMBER 30

The Recovery Slows . . .

As the economy rounds the Labor Day bend, many indicators suggest that its pulse, at long last, is slowing. Recent business statistics, including the index of leading economic indicators, nondefense capital goods orders, home construction and retail sales all point toward some tapering off in the pace of business. And, although such seasonal factors as midsummer vacations and auto model year changeovers may be dampening some of the numbers, it is increasingly apparent that the business expansion is finally shifting into lower, although by no means reverse, gear.

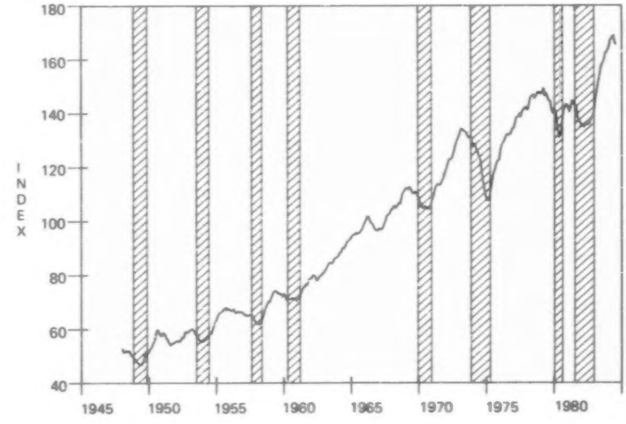
One sign of this is that the Commerce Department's index of leading economic indicators, which tends to foreshadow future business trends, fell in July for the second consecutive month. These back-to-back declines represent a sharp reversal in the behavior of this index which had been climbing for 21 months in a row until June—the longest string of monthly advances in the postwar period. What is more, the June decline—originally reported at 0.9 percent month-over-month—was revised to show a steeper, 1.3 percent drop. Nevertheless, these declines do not necessarily suggest the imminent demise of today's business expansion.

For one thing, the leading indicators have declined for two months in a row in the midst of past business expansions without signaling the near-term onset of recession, but rather foreshadowed only a subsequent slowdown in the pace of business activity. For another, the linkage between trends in this index and business cycle turning points is loose at best; in the past, declines in the leading indicators index have preceded the onset of recession by as little as three months or, at times, as much as two years (see chart).

. . . Dampened By Higher Interest Rates . . .

So, too, the tapering off in housing-related activity is contributing to the slower pace of business. This is because the sharp increases in interest rates which occurred during the first half of this year have again placed homeownership beyond the reach of an ever-growing segment of the general public. With mortgage rates now approaching 15 percent for a fixed-rate conventional loan, the perennial pursuit of the American dream remains just that for many would-be homebuyers. Sales of new single-family homes flattened out in July and now stand some 17 percent below the peak reached last December—leaving builders with about a 6½ month supply of unsold new homes, one of the highest inventory levels in almost two years. Nor have sales of existing single-family homes fared any better. They have fallen nonstop since May, and currently stand at their lowest level since last autumn.

INDEX OF LEADING INDICATORS (1967=100)



Not surprisingly, single-family home construction declined ten percent in July, the third monthly drop in a row. Running at an annual rate of 982,000 units in July, the number of single-family housing starts is now more than six percent below year-ago levels. At the same time, building permits, an indication of future housing activity, fell almost 12 percent month-over-month.

The effect of higher mortgage rates on home sales would have been even more drastic had it not been for the growing popularity, not to mention availability, of adjustable rate mortgages. These mortgages, which now account for about two of every three new mortgages originated, enable

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homebuyers to borrow at rates initially several percentage points below those on conventional mortgages, and usually have a lower—or even no—origination fees.

Until recently, the pace of multi-family housing construction has responded more slowly to interest rate hikes. This is because builders of apartment and condominium projects secured their financing months earlier—when mortgage rates were lower. During the first half of 1984, strong multi-family construction more than offset the dip in single-family housing starts. In April, for example, multi-family housing construction reached the highest level in nearly 11 years. However, high interest rates are beginning to take a toll even on this segment of the housing market and, in July, both starts and building permits for apartments and condominiums declined sharply.

. . . Although Plenty of Life Remains

On the other hand, the impact of higher interest rates on business capital outlays, so far an important prop under today's business expansion, has been muted. Although orders for nondefense capital goods declined in both June and July, they still remain some 23 percent higher than a year ago. So, too, spending on new plant, which has lagged far behind spending on new equipment, is now picking up. As a result, the pace of plant and equipment spending is now running well above the average of past postwar recoveries, responding to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/29/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.826	– 1.046	+ 4.156
Loans to Depository Inst.	8.356	+ .421	+ 6.644
Float	.090	– .181	– .674
Total Reserve Bank Credit	174.355	– .554	+10.656
Treasury Deposits with Federal Reserve Banks	3.615	+ .267	+ .315
Currency in Circulation	175.496	– .649	+13.327
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.930	+ 1.221	+ 9.947
	8/29/84		
Member Bank Reserves:			
Total Reserves Held	36.253	– .743	+ 1.370
Excess (Deficiency)	.698	.021	+ .205
Net Free Reserves	.062	+ .424	+ .566

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (8/20/84)	547.9	+ 4.3‡	+ 5.5‡
M2 (July '84)	2,281.2	+ 6.8	+ 7.3
M3 (July '84)	2,858.8	+ 9.9	+ 9.8
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/31/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.20%	10.40%	10.50%
*** Federal Agencies**	10.89	11.57	12.14
*** Project Notes—Taxfree (46% Taxable Equivalent)**	11.11	11.57	12.13
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	11.49	11.76	12.10

‡ Finance Company Paper—Prime	
5- 14 days	11.30%
15- 29 days	11.30
30- 59 days	11.30
60- 89 days	11.15
90-179 days	10.98
180-239 days	10.80
240-270 days	10.80

‡* Bankers' Acceptances	
Oct.	11.40%
Nov.	11.40
Dec.	11.40
Jan.	11.40
Feb.	11.40
Mar.	11.40

‡ Industrial Paper—Prime	
30- 89 days	11.25%
90-120 days	11.25

† Federal Funds Effective Rate 11.60%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,648 r	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,641 r	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.6 r	10.1	9.4
Change in Consumer Prices (new series)*	Jul '84n	3.6%	2.4%	4.8%
Change in Producer Prices*	Jul '84	3.6%	0.0%	0.0%
Civilian Employment (Thousands of Persons) †	Jul '84	105,395	105,748	101,225
Unemployment as % of Civilian Labor Force †	Jul '84	7.5%	7.1%	10.0%
Personal Income*	Jul '84	$ 3,027	$ 3,003	$ 2,745
Leading Indicators Composite Index (1967=100) †	Jul '84n	165.3	166.6 r	158.2
Industrial Production Index (1967=100) †	Jul '84	165.6	164.1	149.7
Net Change in Consumer Installment Credit †	Jun '84	$ 7.83	$ 10.23	$ 3.71
U.S. Merchandise Trade Balance †	Jul '84n	–$ 14.06	–$ 8.91	–$ 6.37
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jul '84	1,761	1,886	1,793
New Construction Expenditures*	Jun '84	$ 310.6	$ 311.3	$ 264.1
Total Business Inventories †	Jun '84	$ 546.1	$ 545.9	$ 500.6
Total Business Sales †	Jun '84	$ 413.6	$ 412.7	$ 369.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

strong business cash flow growth, tax incentives included in the Economic Recovery Tax Act of 1981 and the need to introduce new technology in order to compete with imports.

Already, the investment in new and more efficient equipment is paying off. The Labor Department reported that nonfarm productivity went up 4.7 percent at a seasonally adjusted annual rate in the second quarter—the biggest increase in a year. The improvement stretched the current string of productivity gains to eight consecutive quarters—the longest period of uninterrupted growth in 11 years.

But that's not all. Many other business statistics still suggest that there is plenty of life left in this economic expansion. Good-sized gains in industrial production, capacity utilization rates and personal incomes all indicate continued business strength. So, too, does the state of consumer finances. For despite a two-year spending spree and a record surge in consumer borrowings this year, such key ratios of household financial health as consumer installment debt to disposable income and total debt to financial assets are still comfortably below the peak levels reached in late 1979 and early 1980. What is more, while high interest rates may be bad news for homebuyers, they do provide a hefty reward to savers. Interest income has already added nearly $40 billion to consumer buying power since January—a development which will provide a lift to consumer spending in the months ahead.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/15/84)	158,086	+ 761	+10,370
New York City (8/22/84)	35,217	– 826	+ 2,209
Commercial Paper (8/22/84)	220,622	+ 1,175	+47,693

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/15/84)	244,335	– 591	+28,751
New York City (8/22/84)	64,094	– 136	+ 5,510

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/15/84)	620,015	+ 4,694	+91,356
New York City (8/22/84)	137,106	– 2,619	+18,454

Financial Markets

	Friday 8/31/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.05%	+ .18	+ 1.40
180-Day Bills†	11.47	+ .15	+ 1.37
Longest Bills†	11.89	+ .14	+ 1.39
Recent Issues:			
$12\frac{3}{8}$s 8/31/86	12.52	+ .06	
$13\frac{5}{8}$s 6/30/88	12.74	+ .17	
$12\frac{5}{8}$s 8/15/94	12.79	+ .12	
$12\frac{1}{2}$s 8/15/14	12.51	+ .07	
Municipals:			
Bond Buyer–20 Bond Index* (8/30/84)	10.17%	+ .15	+ .42
Blue List Total ($ Million)	$1,670	+ $ 74	+ $ 527
30-Day Visible Supply ($ Million)	$3,429	+ $280	+ $1,051
Total	$5,099	+ $354	+ $1,578
Corporates:			
Moody's Aa Composite (8/30/84)	13.46%	+ .01	+ .68
30-Day Visible Supply ($ Million)	$ 500	– $ 27	– $ 10
Stocks:			
Dow-Jones Averages:			
Industrials	1,224.38	– 12.15	+ 8.93
Transportation	520.51	– .11	– 38.43
Utilities	129.46	– .26	– .65
65 Stocks	473.99	– 2.98	– 8.12
Standard and Poor's 500 Stocks	166.68	– .83	+ 1.68
N.Y.S.E. Composite Index	95.86	– .38	+ .58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	69,494	–24,988	+ 3,126

* 46% Taxable equivalent 18.83%.

† Bond equivalent.

International Rates

	Friday 8/31/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.56%	11.25%
1 month	11.75	11.56
3 month	11.88	11.81
6 month	12.19	12.06
1 year	12.63	12.36
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.55%	12.65%
Long Term (7 to 15 yrs.)	12.55	12.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/31/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01718	58.22
Canada	.7703	1.2982
Denmark	.09511	10.5140
France	.1128	8.8625
Germany	.3464	2.8870
Italy	.0005582	1791.50
Japan	.004137	241.70
Mexico	.005102	196.00
Netherlands	.3069	3.2580
Switzerland	.4157	2.4055
U.K.	1.3108	.7629

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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 10, 1984
VOLUME XXI, NUMBER 31

Energy Use Rises . . .

Consumption of petroleum products in the United States will increase in 1984, ending a string of year-over-year declines stretching back to 1979. The brisk upturn in economic activity has boosted oil demand by nearly six percent in the first seven months of this year, compared with the same period a year ago. The rise in consumption was paced by double-digit increases in jet fuel and distillate fuel usage—which includes diesel and home heating fuels. After falling precipitously for six years in a row, residual fuel demand recovered over the same seven-month period, rising by four percent.

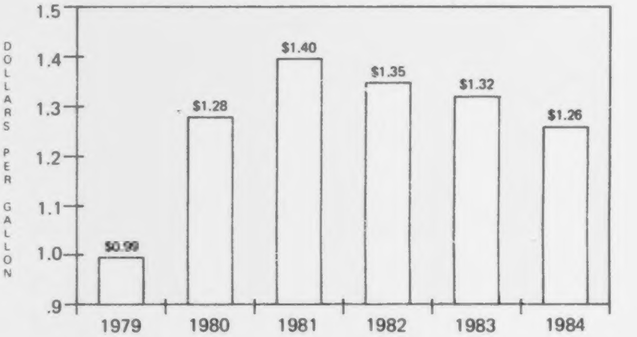
Most of the increase in petroleum demand has come from industry; the rise in consumer-oriented products demand was only slight. During the January-July period of this year, home heating oil usage declined from year-earlier levels, and demand for motor gasoline ran only a meager two percent above the first seven months of 1983. This is surprising, especially in view of substantially improved consumer financial positions, the colder than normal winter temperatures, as well as relatively stable gasoline prices.

. . . Led By Industry . . .

To be sure, people are driving somewhat more this year than last, but because of increased efficiency of the nation's car fleet, it is having a smaller impact on gasoline demand. While last year the average car traveled 16.6 miles on each gallon of gasoline, this year's mileage is expected to rise to about 17½ miles per gallon.

Normally, gasoline prices move up during the summer as refiners take advantage of the seasonal increase in demand to improve profit margins. But the opposite occurred this summer. According to the Automobile Association of America, between Memorial Day and Labor Day, gasoline prices dropped by an average of 2.4 cents per gallon. More specifically, the average Labor Day price of regular unleaded gasoline at $1.258 per gallon was not only six cents per gallon below last year's, but it was the lowest for this Holiday weekend in five years (see chart)! When adjusted for inflation, the slide is even greater—totaling nearly 25 percent since the peak in early 1981. This price decline has not come unexpectedly (Financial Digest—June 4, 1984). A counterseasonal buildup of stocks since yearend 1983 caused a significant oversupply of gasoline in the marketplace by the end of May, resulting in stiff competition among refiners and, thus, lower prices. To avoid further erosion in gasoline profit margins, refiners have become very cautious in rebuilding their distillate stocks in spite of the approaching winter heating season. This is because, during the refining process, each barrel of crude oil yields about twice as much gasoline as it does distillates. Thus, refiners are reluctant to turn up production significantly to prepare for this winter's heating needs and add to gasoline inventories as well. In the past several weeks, refiners have been able to reduce gasoline inventories to somewhat more normal levels. But with the peak driving season coming to a close and gasoline demand beginning to subside, upward pressures on inventories may soon develop once again.

UNLEADED REGULAR GASOLINE,
AVERAGE PRICE DURING LABOR DAY WEEKEND



. . . While Consumers Still Conserve

Thus, refiners are adding to their distillate stocks at one of the slowest rates ever. At the end of August, they had 135 million barrels on hand, which was five percent below last year's level and 15 percent less than in August, 1982. In the five years ending in 1981, the average inventory at this time of the year was 210 million barrels—56 percent above current levels. Importantly, these abnormally low inventories are especially evident on the East Coast, which is the largest consumer of heating oil. With stocks at close to 50 million barrels, they are some 20 percent below last year's level—which proved inadequate. Last

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December's cold spell resulted in severe shortages in the Northeast, sending heating oil prices spiking upward on the spot markets. These increased costs were quickly passed on to consumers until refiners were able to step up production to meet unusually high demands.

If refiners do not produce home heating oil at a faster rate by November—when stocks of home heating oil generally reach their peak—it is possible that unseasonally low temperatures could again cause temporary shortages before refiners are able to catch up with demand.

Tied closely to the level of economic activity are the fortunes of the transportation industry. This year's stepped-up pace of business activity has benefited the trucking industry which hauled ten percent more tonnage in the first six months of this year than last year. Nearly 13 percent more railroad cars were loaded during this period as shipments of motor vehicles by rail rose 21 percent and metals and metal products by 25 percent. In response, consumption of diesel fuel jumped 15 percent in the January-June period, compared with a year ago.

As a result, the average retail cost of diesel fuel, now at $1.26 per gallon, is higher than that for unleaded regular gasoline available at self-service stations. With increases in fuel efficiency in the airline industry

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit	9/5/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	161.635	+ 3.809	+ 7.500
Loans to Depository Inst.	8.007	− .349	+ 6.761
Float	.373	+ .267	− .570
Total Reserve Bank Credit	178.234	+ 3.863	+ 14.404
Treasury Deposits with Federal Reserve Banks	4.140	+ .525	+ .726
Currency in Circulation	177.085	+ 1.589	+ 13.330
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	121.136	+ 2.206	+ 13.083
	8/29/84		
Member Bank Reserves:			
Total Reserves Held	36.237	− .782	+ 1.354
Excess (Deficiency)	.685	− .015	+ .192
Net Free Reserves	.049	+ .388	+ .553

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (8/27/84)	547.1	+ 3.8‡	+ 5.7‡
M2 (July '84)	2,281.1	+ 6.8	+ 7.3
M3 (July '84)	2,858.8	+ 9.9	+ 9.8
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/7/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	10.55%	10.60%	10.65%
* Federal Agencies	11.00	11.60	12.15
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.30	11.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.50	11.75	12.40

‡ Finance Company Paper—Prime	
5- 14 days	11.35%
15- 29 days	11.35
30- 59 days	11.35
60- 89 days	11.20
90-179 days	11.00
180-239 days	10.80
240-270 days	10.80

‡* Bankers' Acceptances	
Oct.	11.50%
Nov.	11.50
Dec.	11.50
Jan.	11.45
Feb.	11.45
Mar.	11.45

‡ Industrial Paper—Prime	
30- 89 days	11.30%
90-120 days	11.30

† Federal Funds Effective Rate 11.55%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,648	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,641	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.6	10.1	9.4
Change in Consumer Prices (new series)*	Jul '84	3.6%	2.4%	4.8%
Change in Producer Prices*	Jul '84	3.6%	0.0%	0.0%
Civilian Employment (Thousands of Persons)†	Aug '84n	104,969	105,395	101,484
Unemployment as % of Civilian Labor Force†	Aug '84n	7.5%	7.5%	9.5%
Personal Income*	Jul '84	$ 3,027	$ 3,003	$ 2,745
Leading Indicators Composite Index (1967 = 100)†	Jul '84	165.3	166.6	158.2
Industrial Production Index (1967 = 100)†	Jul '84	165.6	164.1	149.7
Net Change in Consumer Installment Credit †	Jun '84	$ 7.83	$ 10.23	$ 3.86r
U.S. Merchandise Trade Balance †	Jul '84	−$ 14.06	−$ 8.91	−$ 6.37
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jul '84	1,761	1,886	1,793
New Construction Expenditures*	Jul '84n	$ 311.4	$ 309.3r	$ 272.3
Total Business Inventories †	Jun '84	$ 546.1	$ 545.9	$ 500.6
Total Business Sales †	Jun '84	$ 413.6	$ 412.7	$ 369.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

stabilizing and air traffic soaring, consumption of jet fuel in the first seven months of this year rose by more than 11 percent, year-over-year.

Finally, 1984's consumption of residual fuel—heavy oils used primarily for electric power generation, industrial and commercial space heating and ship fuel—has staged a comeback after falling by an average of 12 percent per year in each of the previous six years. Nevertheless, substitution of alternative fuels continues in many industries. For example, coal continues to displace petroleum in the electric utility sector due to its price advantage. Electric utilities generated nine percent more electricity in the first six months of this year, utilizing six percent less petroleum, but at the same time burning 12 percent more coal and ten percent more natural gas.

However, it is not likely that petroleum products consumption will continue to post these hefty gains much longer. Although the business expansion will remain solidly on track into 1985, real GNP growth is expected to slow from its torrid first half 1984 pace—and with it the demand for petroleum. In fact, preliminary numbers show that in the four weeks ending August 31, residual oil needs dropped by 15 percent, year-over-year, despite a more than 10 percent increase in industrial production and gasoline consumption at 6.9 million barrels per day, was no higher than one year ago.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/22/84)	157,922	− 164	+ 9,069
New York City (8/29/84)	35,094	− 53	+ 1,950
Commercial Paper (8/29/84)	222,140	+ 1,636	+ 49,732

Bank Loans

(Millions of Dollars)

Commerical and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/84)	243,067	− 732	+ 27,365
New York City (8/29/84)	63,745	− 337	+ 5,716

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/22/84)	615,708	− 4,718	+ 89,015
New York City (8/29/84)	136,785	− 327	+ 16,876

Financial Markets

	Friday 9/7/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	11.00%	− .05	+ 1.70
180-Day Bills†	11.45	− .02	+ 1.85
Longest Bills†	11.90	+ .01	+ 1.85
Recent Issues:			
12⅜s 8/31/86	12.50	− .02	
13⅝s 6/30/88	12.75	+ .01	
12⅝s 8/15/94	12.75	− .04	
12½s 8/15/14	12.40	− .11	
Municipals:			
Bond Buyer—20 Bond Index* (9/6/84)	10.18%	+ .01	+ .51
Blue List Total ($ Million)	$1,596	− $ 74	+ $ 514
30-Day Visible Supply ($ Million)	$3,689	+ $260	+ $1,275
Total	$5,285	+ $186	+ $1,789
Corporates:			
Moody's Aa Composite (9/6/84)	13.42%	− .04	+ .75
30-Day Visible Supply ($ Million)	$ 650	+ $150	− $ 117
Stocks:			
Dow-Jones Averages:			
Industrials	1,207.38	− 17.00	− 32.36
Transportation	507.41	− 13.10	− 62.25
Utilities	129.10	− .36	− 2.67
65 Stocks	466.72	− 7.27	− 24.18
Standard and Poor's 500 Stocks	164.37	− 2.31	− 2.55
N.Y.S.E. Composite Index	94.69	− 1.17	− 1.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	77,055	+ 7,561	− 7,865

* 46% Taxable equivalent 18.85%

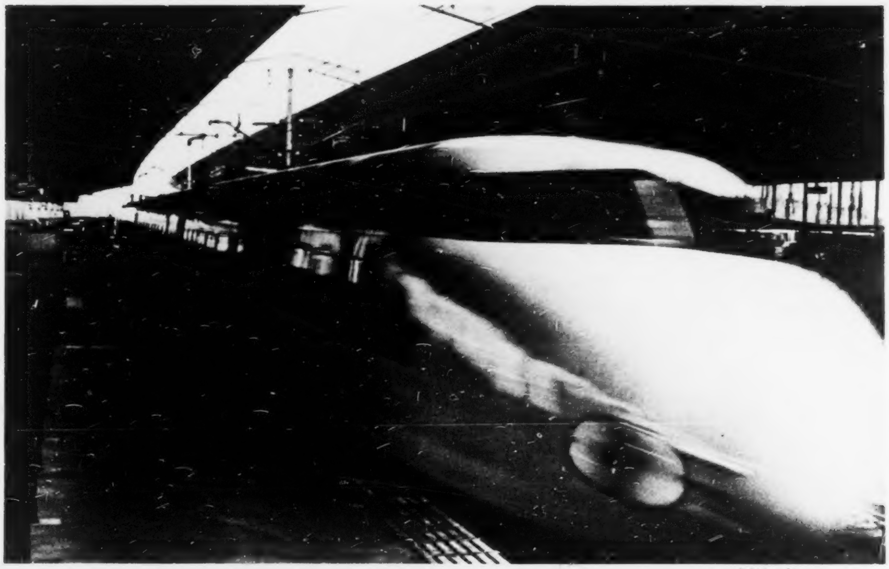
† Bond equivalent.

International Rates

	Friday 9/7/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.50%	11.56%
1 month	11.75	11.75
3 month	11.88	11.88
6 month	12.19	12.19
1 year	12.69	12.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.55%
Long Term (7 to 15 yrs.)	12.50	12.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/7/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01672	59.82
Canada	.7631	1.3105
Denmark	.09285	10.7700
France	.1096	9.1200
Germany	.3364	2.9725
Italy	.0005467	1829.00
Japan	.004082	245.00
Mexico	.005089	196.50
Netherlands	.2985	3.3500
Switzerland	.4047	2.4710
U.K.	1.2780	.7825



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 17, 1984

VOLUME XXI, NUMBER 32

The Process Of Repairing . . .

Although the business expansion will soon reach its second birthday, only limited improvements have been made so far in the state of corporate finances. While some progress has been achieved in restoring corporate financial health—after a period of almost nonstop deterioration since the mid-1970s—the lengthy process of repairing badly worn balance sheets has been repeatedly interrupted this year by rising interest rates and the frequent bouts of disarray plaguing the bond and stock markets. As a result, corporate America remains almost as vulnerable today to abrupt swings in the availability and cost of short-term credit as it did a year and a half ago. And despite a hefty increase in internal funds generated, interest expense continues to gobble up a good-sized chunk of business cash flow. Indeed, in the absence of more pronounced balance sheet improvements in the months ahead, business could find itself ill-prepared to weather any pause in today's economic expansion.

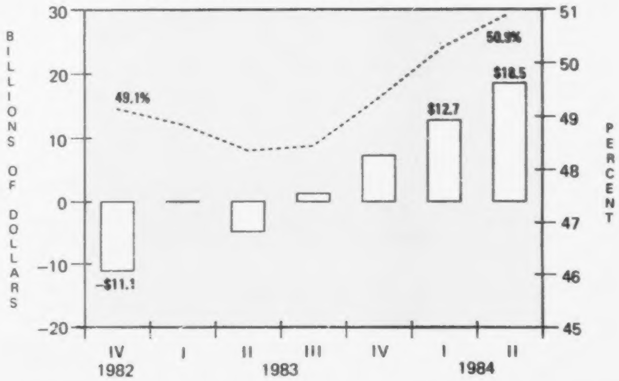
To be sure, corporate profits have snapped back strongly during this business expansion. With sales rising robustly, operating costs slashed, productivity improving and idle capacity either diminished or eliminated altogether, pre-tax corporate earnings rose by just about 60 percent over the past six calendar quarters. This is twice the rate of rise in before-tax earnings posted during the first 18 months of recovery from the preceding six postwar recessions. After-tax earnings have soared as well. They surged by more than $50 billion, or 52 percent during the same period—twice the rate of gain in the past. What is more, not only have the top-line numbers improved but, with inflation-driven inventory profits reduced and depreciation allowances enhanced, the "quality" of earnings has improved as well (Financial Digest—August 6, 1984).

The combination of escalating earnings and a sharp upturn in depreciation allowances stemming from the Economic Recovery Tax Act of 1981 has resulted in a sizable rise in overall business cash flow. It ran at a $325 billion annual rate during the second quarter of 1984, 22 percent above year-earlier levels and equivalent to nearly nine percent of GNP. This, too, is well ahead of previous cyclical experience; at this stage of the business cycle in the past, cash flow was usually running at a rate equivalent to about 7½ percent of GNP.

. . . Corporate Balance Sheets . . .

In light of such earnings and cash flow numbers, one would think that there is little cause for concern over the health of corporate finances—especially when compared with the bleak days of 1981-82. At that time, earnings were in the midst of one of their steepest slides in the postwar era, and business failures were running at postwar record rates, both in actual number, and when expressed as a percentage of the number of existing firms. And while there has been some improvement this year, in recent months, several of the nemeses which have plagued corporate America in the past once again threaten to bring to a halt the gains which have occurred to date.

CHANGE IN SHORT-TERM BUSINESS CREDIT OUTSTANDING (BAR) VS. SHORT-TERM LIABILITIES AS A % OF TOTAL LIABILITIES (DOT)



Perhaps most important, with the pace of business now tapering off, it appears a good bet that the high-water mark for corporate earnings gains during this business expansion has been reached. Already, the quarter-over-quarter rise in earnings has begun to slow. However, the pace of outlays for inventories and capital equipment remains strong. As a result, the corporate "surplus" which prevailed throughout much of 1983—when cash flow far outstripped spending for inventories, plant and equipment—has vanished, suggesting that business may soon return to external sources for funds. Nor is this situation expected to

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change anytime soon, especially as long as today's capital spending spree continues. According to the Commerce Department, U.S. businesses plan to step up plant and equipment spending this year by some 13.3 percent after inflation is netted out, compared with 1983 levels. If so, this would mark the largest year-over-year gain in real plant and equipment spending since 1966.

... Hits A Snag

But while the return of corporate America to the debt markets doesn't necessarily have to be harmful to corporate financial health, especially if lower cost and/or longer-term debt than presently outstanding could be accessed, in today's lofty interest rate environment it probably is. For with long-term interest rates still riveted within double-digit territory, it is hardly surprising that the lion's share of the corporate financing shortfall that emerged in the first half of this year was satisfied by either the commercial banks or in the commercial paper market. As shown in the chart on page 1, short-term business credit outstanding—the combination of commercial and industrial loans and nonfinancial company commercial paper—rose by more than $31 billion during the first half of this year. Not only was this sum almost four times the amount added during the immediately preceding six months, but it was also about twice the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/12/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	161.680	+ .045	+ 8.208
Loans to Depository Inst.	7.503	− .504	+ 6.353
Float	.694	+ .321	− .909
Total Reserve Bank Credit	178.287	+ .053	+ 14.317
Treasury Deposits with Federal Reserve Banks	3.933	− .207	+ .495
Currency in Circulation	177.512	+ .455	+ 13.090
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	118.667	− 2.469	+ 7.612
	9/12/84		
Member Bank Reserves:			
Total Reserves Held	36.994	+ .736	+ 2.789
Excess (Deficiency)	.704	+ .027	+ .300
Net Free Reserves	.320	+ .279	+ .380

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (9/3/84)	544.9	+ 2.4‡	+ 5.5‡
M2 (August '84)	2,289.1	+ 5.4	+ 7.2
M3 (August '84)	2.867.6	+ 7.3	+ 9.6
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/14/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.85%	10.00%	10.15%
* Federal Agencies	11.05	11.36	11.86
* Project Notes—Taxfree (46% Taxable Equivalent)	11.02	11.20	11.48
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.25	11.35	11.88

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	11.20%	Oct.	11.35%
15- 29 days	11.20	Nov.	11.30
30- 59 days	11.15	Dec.	11.23
60- 89 days	11.00	Jan.	11.23
90-179 days	10.85	Feb.	11.23
180-239 days	10.60	Mar.	11.15
240-270 days	10.60		

‡ Industrial Paper—Prime			
30- 89 days	11.08%	† Federal Funds	
90-120 days	10.90	Effective Rate	11.35%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,648	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,641	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.6	10.1	9.4
Change in Consumer Prices (new series)*	Jul '84	3.6%	2.4%	4.8%
Change in Producer Prices*	Aug '84n	− 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '84	104,969	105,395	101,484
Unemployment as % of Civilian Labor Force†	Aug '84	7.5%	7.5%	9.5%
Personal Income*	Jul '84	$ 3,027	$ 3,003	$ 2,745
Leading Indicators Composite Index (1967 = 100)†	Jul '84	165.3	166.6	158.2
Industrial Production Index (1967 = 100)†	Aug '84n	166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84n	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84	−$ 14.06	−$ 8.91	−$ 6.37
Plant and Equipment Expenditures*	4th Q'84n	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Jul '84	1,761	1,886	1,793
New Construction Expenditures*	Jul '84	$ 311.4	$ 309.3	$ 272.3
Total Business Inventories †	Jun '84	$ 546.1	$ 545.9	$ 500.6
Total Business Sales †	Jun '84	$ 413.6	$ 412.7	$ 369.0

*Seasonally adjusted annual rate.

†Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

dollar value of new corporate bond offerings during the January-June 1984 period.

The renewed reliance on short-term debt has brought to a halt the process of lengthening the maturity structure of corporate liabilities. Fully $1 of every $2 of corporate debt is now of short-term duration—a record high. What is more, whereas the funding of short-term debt in the long-term markets continued for a full four calendar quarters following the trough of the 1973-75 recession, it did so for only half that time this time around. This inability to retire a sizable chunk of costly short-term debt provides one good reason why interest expenses alone continue to absorb more than $1 of every $4 of cash flow generated—a proportion which has been rising over the past two quarters.

While the snags encountered in mending corporate finances may bring frowns to company treasurers, shareholders at least should have something to smile about. With earnings soaring, the number of dividend reductions announced during the first six months of 1984 was about half that of the same period a year ago, while the number of dividend hikes increased 3½ percent. In fact, distributions surged to almost $80 billion in the second quarter, or 11½ percent higher than a year earlier.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/29/84)	158,036	+ 185	+ 9,107
New York City (9/5/84)	35,020	− 74	+ 2,325
Commercial Paper (9/5/84)	220,746	− 1,593	+46,756

Bank Loans

(Millions of Dollars)

	Commerical and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/29/84)	242,089	− 966	+ 26,084
New York City (9/5/84)	64,728	+ 983	+ 6,628

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/29/84)	615,754	+ 88	+85,532
New York City (9/5/84)	141,043	+ 4,287	+21,720

Financial Markets

	Friday 9/14/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.72%	− .28	+ 1.32
180-Day Bills†	11.10	− .35	+ 1.30
Longest Bills†	11.40	− .50	+ 1.25
Recent Issues:			
12⅜s 8/31/86	12.04	− .46	
13⅝s 6/30/88	12.26	− .49	
12⅝s 8/15/94	12.27	− .48	
12½s 8/15/14	12.09	− .31	
Municipals:			
Bond Buyer—20 Bond Index* (9/13/84)	10.10%	− .08	+ .48
Blue List Total ($ Million)	$1,533	− $ 63	+ $ 499
30-Day Visible Supply ($ Million)	$4,809	+ $1,120	+ $2,848
Total	$6,342	+ $1,057	+ $3,297
Corporates:			
Moody's Aa Composite (9/13/84)	13.28%	− .14	+ .55
30-Day Visible Supply ($ Million)	$1,185	+ $535	+ $ 778
Stocks:			
Dow-Jones Averages:			
Industrials	1,237.52	+ 30.14	+ 11.81
Transportation	526.52	+ 19.11	− 46.21
Utilities	132.80	+ 3.70	+ .91
65 Stocks	480.15	+ 13.43	− 8.73
Standard and Poor's 500 Stocks	168.78	+ 4.41	+ 2.51
N.Y.S.E. Composite Index	97.05	+ 2.36	+ .88
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,768	+ 23,713	+ 19,232

* 46% Taxable equivalent 18.70%

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/14/84	Week Ago
Overnight	11.31%	11.50%
1 month	11.50	11.75
3 month	11.63	11.88
6 month	11.88	12.19
1 year	12.25	12.69
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.40%	12.50%
Long Term (7 to 15 yrs.)	12.40	12.50

FOREIGN EXCHANGE SPOT RATES New York Opening (9/14/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01644	60.81
Canada	.7610	1.3140
Denmark	.09138	10.9430
France	.1076	9.2900
Germany	.3305	3.0255
Italy	.0005369	1862.50
Japan	.004078	245.20
Mexico	.005102	196.00
Netherlands	.2932	3.4112
Switzerland	.3997	2.5018
U.K.	1.2692	.7879

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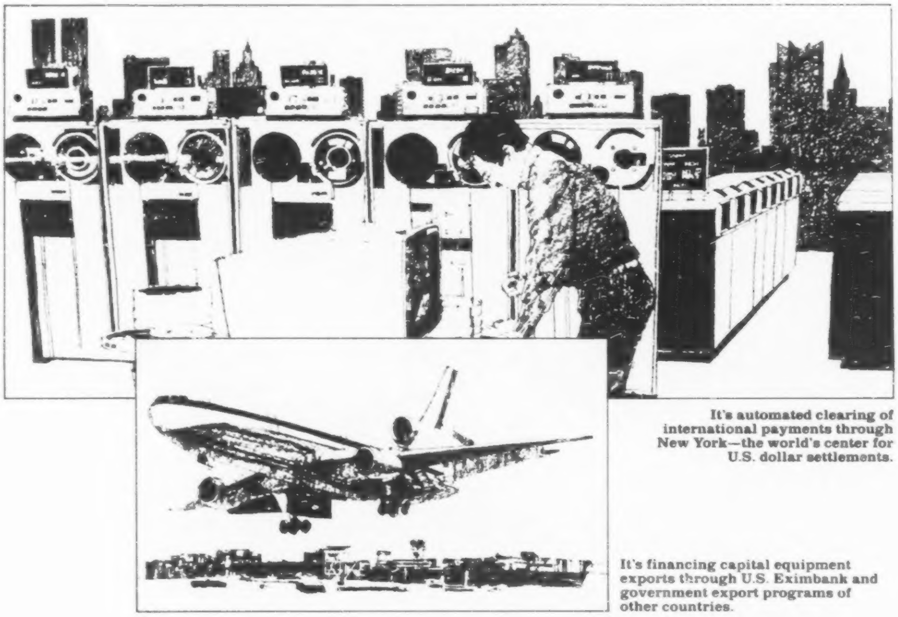

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 24, 1984
VOLUME XXI, NUMBER 33

Slow Growth In Europe . . .

While the economic and financial condition of the developing countries will be a major item on the agenda at this week's International Monetary Fund/World Bank meetings in Washington, the discussions will be less than complete if the related problem of slow economic growth in Europe is not explored as well. For unless business activity in the principal European countries perks up, both commodity prices and the demand for developing country exports are likely to remain soft.

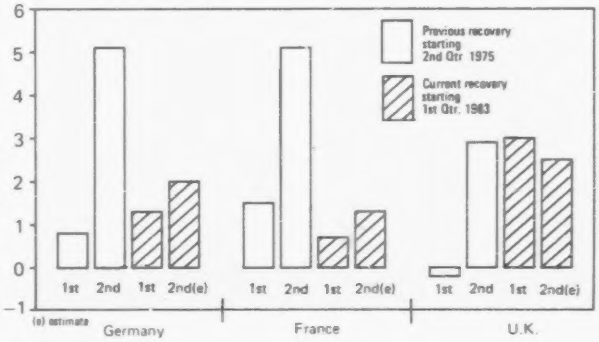
It is fairly evident that the European economies are growing much more sluggishly at this stage of today's global business upswing than in the past. Germany's real GNP, for example, is expected to grow by only about two percent this year after an anemic 1.3 percent gain in 1983 (see chart). By contrast, Germany's growth rates following the deep 1974-75 recession stood at 5.1 percent in the second year of recovery, after a 0.8 percent increase in the first.

So, too, the economic recoveries in France, the U.K. and Italy—Europe's other economic locomotives—appear modest as well. After a less than one percent gain in 1983, French GNP should climb by less than 1.5 percent this year, with no additional vigor foreseen for 1985. In the United Kingdom, after more than a decade of either low real growth or recession, the economic upturn is somewhat stronger, with GNP set to rise around 2½ percent this year after three percent last year. But while these numbers stand up well compared with the U.K.'s anemic growth rates following the mid-70s recession, they are neither sufficiently high to spur the world economy nor even reduce the U.K.'s unemployment rate all that much. As for Italy, real output may rise by slightly more than two percent this year after a one percent decline in 1983. For Europe as a whole, real economic growth will probably amount to little more than two percent both this year and next, after a 1.3 percent gain in 1983—much lower than the 4.6 percent and 2.4 percent increases in the corresponding periods of recovery from the mid-70s recession.

. . . Reflects Consumer Caution . . .

Lackluster final demand in Europe reflecting high unemployment, lofty interest rates and low capital spending accounts for much of the sluggish GDP growth in the region. Retail sales statistics in the various major European countries, for example, indicate that consumers in these countries are reluctant to open up their pocketbooks, perhaps reflecting uncertainty about the future. After almost no increase in the first quarter of this year, retail sales in Germany declined at a 2.7 percent annual rate in the second quarter (in part reflecting the additional negative impact of the metalworkers strike on consumer demand). In France, the consumer mood has been volatile, with retail sales up 13 percent in the first quarter, but down 12.5 percent in the second. In the U.K., after a 0.5 percent gain in the first quarter, retail sales rose 4.9 percent in the second.

REAL GROWTH IN SELECTED EUROPEAN COUNTRIES
CURRENT RECOVERY VS. PREVIOUS RECOVERY
(% CHANGE DURING FIRST AND SECOND YEARS OF RECOVERY)



Only in Italy do consumers seem exuberant. Not only nominal but also inflation-adjusted retail sales rose at double-digit annual rates in the first half of this year. But when retail purchases and other components of private consumption expenditures are lumped together and adjusted for inflation, consumption in Western Europe is expected this year to grow at just about a three percent annual rate, much lower than the six percent rise anticipated for the U.S.

Sluggish consumption in Europe has also dampened capital investment. Real private and public spending on plant and equipment is expected to rise this year by four to five percent in Germany and in the U.K., and by around one-half to two percent in

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Italy and France. This is far below the 13.3 percent rise projected for the U.S. this year. Likewise, in Europe little encouragement is expected from inventory spending. As a result, many of the European countries are looking for stronger exports to help their economies. Their hopes will probably be disappointed, however, despite the strength of the dollar against the European currencies, if internal demand within Europe does not perk up. This is because a good-sized chunk of the external trade of individual European countries is with other countries in Europe. For instance, Germany sells around 70 percent of its exports to European countries, while for France and the U.K., the figures are 60 percent and 55 percent respectively.

. . . And Policy Restraints

Beyond the statistics, it has been suggested that the slow growth of domestic demand in Europe stems from Washington's large budget deficits and their impact on interest rates—not just in the U.S., but worldwide. Relevant as this point may be, a more fundamental reason for lackluster demand in Europe is the pronounced shift in these countries in the past few years towards both fiscal and monetary restraint—in sharp contrast with fiscal expansion and a more accommodative monetary stance in the U.S.

The OECD estimates that the ratio of the public sector budget deficit to gross private savings, which

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/19/84	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	162.329	+ .649	+ 4.249
Loans to Depository Inst.	7.323	− .180	+ 5.226
Float	.813	+ .109	− .153
Total Reserve Bank Credit	178.956	+ .659	+ 9.851
Treasury Deposits with Federal Reserve Banks	5.602	+ 1.669	− 1.573
Currency in Circulation	176.590	− .922	+13.289
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.244	+ .577	+ 8.189
Member Bank Reserves:	9/12/84		
Total Reserves Held	36.995	+ .736	+ 2.790
Excess (Deficiency)	.666	+ .012	+ .262
Net Free Reserves	.282	+ .240	+ .342
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (9/10/84)	552.7	+ 2.2‡	+ 5.7‡
M2 (August '84)	2,289.6	+ 5.5	+ 6.0
M3 (August '84)	2,867.9	+ 7.4	+ 9.0
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/21/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.80%	10.00%	10.15%
* Federal Agencies	10.76	11.10	11.67
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.20	11.57
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.15	11.20	11.40

‡ Finance Company Paper—Prime	
5- 14 days	10.60%
15- 29 days	10.70
30- 59 days	10.78
60- 89 days	10.75
90-179 days	10.65
180-239 days	10.35
240-270 days	10.55

‡* Bankers' Acceptances	
Oct.	10.95%
Nov.	10.95
Dec.	10.90
Jan.	10.90
Feb.	10.85
Mar.	10.70

‡ Industrial Paper—Prime	
30- 89 days	10.81%
90-120 days	10.65

† Federal Funds Effective Rate 10.90%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,645 r	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,639 r	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.1 r	10.1	9,4
Change in Consumer Prices (new series)*	Aug '84n	6.0%	3.6%	4.8%
Change in Producer Prices*	Aug '84	− 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons) †	Aug '84	104,969	105,395	101,484
Unemployment as % of Civilian Labor Force †	Aug '84	7.5%	7.5%	9.5%
Personal Income*	Aug '84n	$ 3,043	$ 3,027 r	$ 2,760
Leading Indicators Composite Index (1967=100) †	Jul '84	165.3	166.6	158.2
Industrial Production Index (1967=100) †	Aug '84	166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84	−$ 14.06	−$ 8.91	−$ 6.37
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84n	1,537	1,763 r	1,873
New Construction Expenditures*	Jul '84	$ 311.4	$ 309.3	$ 272.3
Total Business Inventories †	Jul '84n	$ 551.3	$ 546.8 r	$ 501.4
Total Business Sales †	Jul '84n	$ 411.0	$ 414.1 r	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

is probably one of the best measures of the stimulative thrust of fiscal policy, will fall in the U.S. to 18 percent in 1984, from 23 percent in 1983. But this will still be much higher than the 4.3 percent average in the years between the two recent global recessions of 1973-75 and 1981-82. By contrast, in Germany this ratio will probably drop to around 6.5 percent in 1984 from 12.9 percent in 1983 and an average of 15.1 percent in the 1976-81 period. Correspondingly, for the U.K., this ratio is expected to decline to 17.3 percent in 1984 from 21.7 percent in 1983 after averaging 24 percent in the years immediately following the mid-70's recession. Only France and Italy are following the U.S. budget example. They are experiencing a lesser growth impact from it than in the U.S., however, because of the greater dependence of these two countries on exports to other European countries for their internal growth.

Participants at the IMF/World Bank meetings may indeed decide that in the interest of a more robust world economy, European countries should reconsider their stringent fiscal policies in order to spark consumption and investment. By stimulating world trade and growth, such a policy shift could well be an important step toward alleviating the liquidity problems of the developing countries.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/5/84)	156,580	− 1,440	+ 8,613
New York City (9/12/84)	35,106	+ 86	+ 2,689
Commercial Paper (9/12/84)	225,103	+ 3,743	+49,772

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/5/84)	244,052	+ 1,916	+28,011
New York City (9/12/84)	65,042	+ 337	+ 7,251

	Total Loans and Leases Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/5/84)	622,840	+ 7,124	+92,104
New York City (9/12/84)	141,524	+ 282	+23,513

Financial Markets

	Friday 9/21/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.67%	− .05	+ 1.55
180-Day Bills†	11.01	− .09	+ 1.61
Longest Bills†	11.33	− .07	+ 1.61
Recent Issues:			
$11{}^{7}/_{8}$s 9/30/86 (When Issued)	11.98	NA	
$13{}^{5}/_{8}$s 6/30/88	12.27	+ .01	
$12{}^{5}/_{8}$s 8/15/94	12.32	+ .05	
$12{}^{1}/_{2}$s 8/15/14	12.12	+ .03	
Municipals:			
Bond Buyer–20 Bond Index* (9/20/84)	9.95%	− .15	+ .53
Blue List Total ($ Million)	$1,563	+$ 30	+ $ 454
30-Day Visible Supply ($ Million)	$3,714	−$1,095	+ $1,422
Total	$5,277	−$1,065	+ $1,876
Corporates:			
Moody's Aa Composite (9/20/84)	13.13%	− .15	+ .58
30-Day Visible Supply ($ Million)	$1,295	+$ 110	+ $ 798
Stocks:			
Dow-Jones Averages:			
Industrials	1,201.74	− 35.78	− 53.85
Transportation	518.69	− 7.83	− 65.73
Utilities	135.31	+ 2.51	+ 1.88
65 Stocks	471.22	− 8.93	− 28.18
Standard and Poor's 500 Stocks	165.67	− 3.11	− 3.84
N.Y.S.E. Composite Index	95.67	− 1.38	− 2.40
N.Y.S.E. Avg. Daily Vol. for Week (000's)	106,124	+ 5,356	+ 11,990

* 46% Taxable equivalent 18.43%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/21/84	Week Ago
Overnight	10.63%	11.31%
1 month	11.19	11.50
3 month	11.38	11.63
6 month	11.50	11.88
1 year	11.75	12.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.40%
Long Term (7 to 15 yrs.)	12.45	12.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/21/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01568	63.78
Canada	.7569	1.3211
Denmark	.08739	11.4431
France	.1030	9.7100
Germany	.3161	3.1640
Italy	.0005133	1948.00
Japan	.004040	247.50
Mexico	.005128	195.00
Netherlands	.2803	3.5680
Switzerland	.3891	2.5700
U.K.	1.2120	.8251

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MONDAY, OCTOBER 1, 1984
VOLUME XXI, NUMBER 34

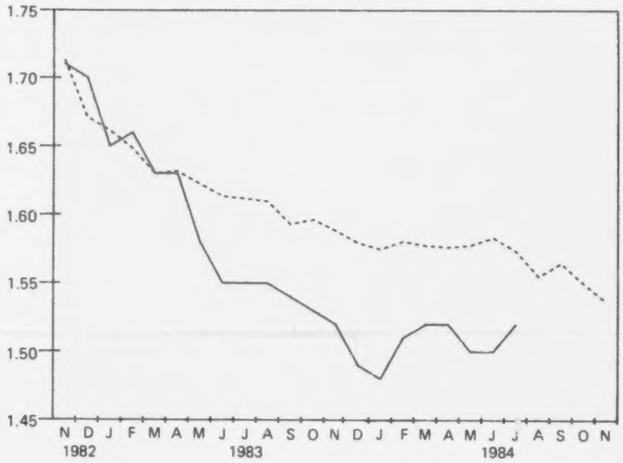
The Economy Cools Down . . .

As the economy enters the final quarter of 1984, concerns are developing that it may also be the final quarter of the current business expansion. The chorus which voiced fears as recently as two months ago that the economy was growing too fast, has changed its tune and now believes that the pace of business has slowed to the point where it may be on the verge of a new recession. Those who have this view would seem to have plenty of evidence to back them up. Retail sales, home construction, factory orders, industrial production and industry operating rates are all either flat or declining.

However, most statistics show no signs of the excesses which usually precede a downturn in the economy. The late summer lull suggested by the economic data on sales and output probably reflected in part fears of an auto strike and its impact on inventories held by suppliers to, and customers of the auto industry. Some of these sluggish numbers seem to be strengthening once again, now that the strike is settled. Continuing high levels of employment and incomes, strong consumer confidence, subdued inflation, a lack of excess inventories and a highly stimulative fiscal policy all point to further—albeit more moderate—growth in the months ahead. The fact that the latest reading of the government's leading economic indicators series shows an increase after two months of decline would seem to support this view.

There is no doubt that the business climate cooled during the third quarter. The government's "flash" report on the gross national product indicated an increase of only 3.6 percent at an annual rate—less than half of the 8½ percent annual rate of rise posted during the first six months of this year. This transition to a more moderate pace of growth is not unusual at this point in the business cycle. Indeed, if there is anything unusual about this slowdown, it's that it took so long for it to occur. For even with the slower rate of growth in the third quarter, the ongoing recovery is still stronger than it has been at this point in the typical postwar business upswing. Since the upturn in business activity began at the end of 1982, inflation-adjusted gross national product has risen nearly 12 percent compared with an average seven-quarter rise of little more than 11 percent. This recovery's second year has so far been stronger than its first—the reverse of the usual cyclical pattern.

REAL INVENTORY-SALES RATIO, MANUFACTURING AND TRADE
CURRENT RECOVERY (LINE) VS. AVG. OF 3 PREVIOUS RECOVERIES (DOT)
EXCLUDING 1980-81 RECOVERY



The deceleration in economic activity from its rapid pace of the previous two quarters augurs well for the expansion's longevity. This is because it should be helpful in preventing a renewal of inflation and the expectation of inflation by keeping the pace of business slow enough so that price increases are difficult to come by—as would be wage hikes. And, of course, if inflation can be kept at bay, interest rates would be more likely to hold steady or even decline a notch. Both developments, clearly, are necessary for the health of any business expansion.

. . . But Consumers And Business . . .

While consumers were more cautious during the summer, they should become more expansive during the coming months. For despite a two-year buying spree fueled by a sharp rise in consumer borrowing, people in the aggregate remain in good shape financially as well as psychologically. For one thing, the value of their assets is up, thanks to the high level of stock and bond prices—not to mention the increased value of most homes. Also, their use of

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debt, although up sharply this year, remains well below the peak levels relative to incomes that were reached nearly five years ago. In addition, people's buying power (take-home pay adjusted for inflation) is rising at the fastest rate in 11 years, thanks to high levels of employment combined with moderate inflation and lower taxes. People's attitudes seem bright, according to various surveys of consumer confidence. This is supported by the latest reading of the so-called "misery" index—the combination of inflation and unemployment—which today is half of what it was four years ago and the lowest since 1973.

As for autos, their recent low sales levels appear to have been due to a shortage of new cars, not exhausted demand. For several months, sales have outpaced production, causing dealer inventories to decline. Now that the auto strike is settled, the availability of new cars will increase, suggesting that sales will go up, too.

. . . Will Support Future Growth

Nor is the household sector the only source of economic strength. For one thing, inventory-sales ratios remain low (see chart on page 1). And although businessmen will remain cautious in their restocking because of high financing costs, the absence of the ability to save money by buying before prices rise—not to mention the widespread use of computers which makes it easier for companies to maintain lean inventory levels—some

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/26/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	164.830	+ 2.501	+ 2.082
Loans to Depository Inst.	6.896	– .427	+ 5.618
Float	–.078	– .891	– 1.190
Total Reserve Bank Credit	180.985	+ 2.029	+ 7.377
Treasury Deposits with Federal Reserve Banks	8.410	+ 2.808	– 5.747
Currency in Circulation	175.382	– 1.208	+12.954
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.836	– 3.408	+ 4.781
	9/26/84		
Member Bank Reserves:			
Total Reserves Held	37.806	– .321	+ 2.317
Excess (Deficiency)	.631	– .034	+ .182
Net Free Reserves	.184	– .097	+ .270

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (9/17/84)	549.6	+ 2.5‡	+ 5.8‡
M2 (August '84)	2,289.5	+ 5.5	+ 7.2
M3 (August '84)	2,867.8	+ 7.4	+ 9.6
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/28/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	9.85%	10.00%
* Federal Agencies	10.79	11.02	11.64
* Project Notes—Taxfree (46% Taxable Equivalent)	11.02	11.30	11.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.95	11.20	11.45

‡Finance Company Paper—Prime	
5- 14 days	10.75%
15- 29 days	10.75
30- 59 days	10.70
60- 89 days	10.60
90-179 days	10.45
180-239 days	10.30
240-270 days	10.30

‡* Bankers' Acceptances	
Oct.	10.70%
Nov.	10.75
Dec.	10.75
Jan.	10.77
Feb.	10.77
Mar.	10.78

‡Industrial Paper—Prime	
30- 89 days	10.65%
90-120 days	10.65

†Federal Funds Effective Rate 11.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,645	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,639	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.1	10.1	9.4
Change in Consumer Prices (new series)*	Aug '84	6.0%	3.6%	4.8%
Change in Producer Prices*	Aug '84	– 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '84	104,969	105,395	101,484
Unemployment as % of Civilian Labor Force†	Aug '84	7.5%	7.5%	9.5%
Personal Income*	Aug '84	$ 3,043	$ 3,027	$ 2,760
Leading Indicators Composite Index (1967=100)†	Aug '84n	164.5	163.7r	158.9
Industrial Production Index (1967=100)†	Aug '84	166.2	165.8	151.8
Net Change in Consumer Installment Credit†	Jul '84	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance†	Aug '84n	–$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84	1,537	1,763	1,873
New Construction Expenditures*	Jul '84	$ 311.4	$ 309.3	$ 272.3
Total Business Inventories†	Jul '84	$ 551.3	$ 546.8	$ 501.4
Total Business Sales†	Jul '84	$ 411.0	$ 414.1	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

inventory accumulation seems likely to occur, if for no other reason than to accommodate the greater buying needs that will accompany the upcoming Holiday shopping season. Obviously, this will boost production and employment levels.

Business capital spending remains ebullient, too. Real business fixed investment has soared by a record 25.6 percent since this recovery got underway. This compares with an average rise of less than 13 percent at this stage of the typical postwar expansion. A survey of capital spending plans conducted by the Commerce Department in late July and early August showed that U.S. businesses intend to spend 13.3 percent more this year on new plants and equipment than they did last year, after inflation is netted out. If these plans materialize, 1984 will post the largest annual rise in capital spending in almost two decades.

Finally, the fiscal-monetary policy mix now in place should be supportive of the business expansion well into next year. The pace of Federal, state and local government spending on a variety of goods and services will hardly skip a beat in the coming months, providing fuel to overall spending levels. On the other side of the coin, with inflation modest and the money supply numbers well-behaved, monetary policy, too, is unlikely to cease supporting the business recovery. As long as neither the Fed nor private sector companies step on the brakes, no recession will occur. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/12/84)	156,916	+ 346	+10,209
New York City (9/19/84)	35,313	+ 207	+ 3,679
Commercial Paper (9/19/84)	227,343	+ 2,253	+49,518

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/12/84)	244,450	+ 434	+28,987
New York City (9/19/84)	65,374	+ 332	+ 7,440

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/12/84)	624,182	+ 1,120	+95,173
New York City (9/19/84)	141,426	– 27	+22,995

Financial Markets

	Friday 9/28/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.59%	– .08	+ 1.47
180-Day Bills†	10.99	– .02	+ 1.59
Longest Bills†	11.30	– .03	+ 1.58
Recent Issues:			
$11\frac{7}{8}$s 9/30/86	11.97	– .01	
$13\frac{5}{8}$s 6/30/88	12.55	+ .28	
$12\frac{5}{8}$s 8/15/94	12.37	+ .05	
$12\frac{1}{2}$s 8/15/14	12.12	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (9/27/84)	10.15%	+ .20	+ .73
Blue List Total ($ Million)	$1,764	+ $201	+ $ 655
30-Day Visible Supply ($ Million)	$4,105	+ $391	+ $1,813
Total	$5,869	+ $592	+ $2,468
Corporates:			
Moody's Aa Composite (9/27/84)	13.12%	– .01	+ .57
30-Day Visible Supply ($ Million)	$ 810	– $485	+ $ 313
Stocks:			
Dow-Jones Averages:			
Industrials	1,206.71	+ 4.97	– 48.88
Transportation	517.61	– 1.08	– 66.81
Utilities	139.16	+ 3.85	+ 5.73
65 Stocks	474.04	+ 2.82	– 25.36
Standard and Poor's 500 Stocks	166.10	+ .43	– 3.41
N.Y.S.E. Composite Index	95.77	+ .10	– 2.30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	86,282	–19,842	– 7,852

* 46% Taxable equivalent 18.80%.

† Bond equivalent.

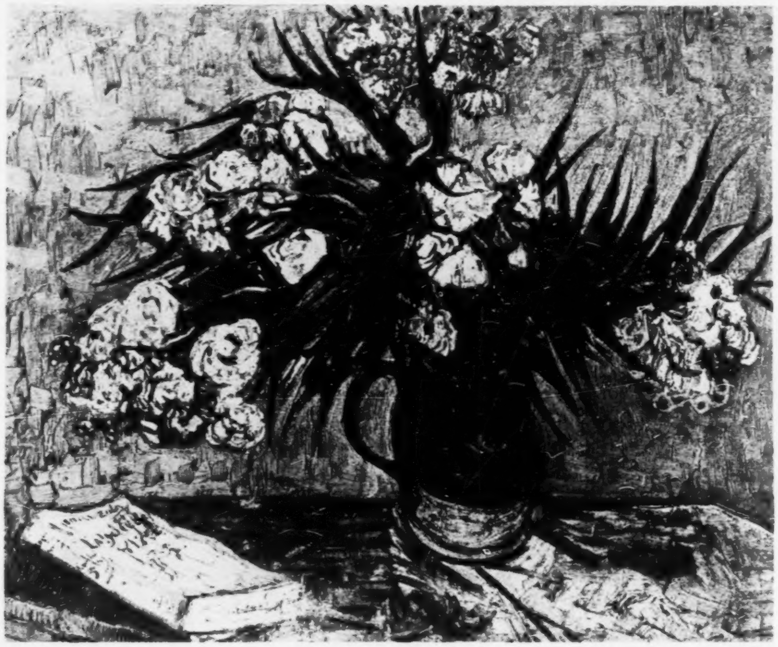
International Rates

	Friday 9/28/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	11.25%	10.63%
1 month	11.06	11.19
3 month	11.38	11.38
6 month	11.56	11.50
1 year	11.88	11.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.50%
Long Term (7 to 15 yrs.)	12.45	12.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/28/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01631	61.32
Canada	.7597	1.3163
Denmark	.09120	10.9650
France	.1078	9.2800
Germany	.3307	3.0243
Italy	.0005311	1883.00
Japan	.004077	245.25
Mexico	.005000	200.00
Netherlands	.2934	3.4088
Switzerland	.4002	2.4985
U.K.	1.2480	.8013

VAN GOGH



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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

FRIDAY, OCTOBER 5, 1984
VOLUME XXI, NUMBER 35

In Spite Of . . .

One of the most welcome developments accompanying the current economic expansion is the relatively low rate of inflation. Over the past 12 months, retail prices have advanced by only 4.2 percent—a small rise, in view of the earlier strength in business activity and the continuing stream of Federal budget deficits. But now, hard on the heels of predictions of deflation voiced last summer by many forecasters, cries of a newly rekindled inflation spiral are emerging, fueled by August's 0.5 percent month-over-month rise in the Consumer Price Index.

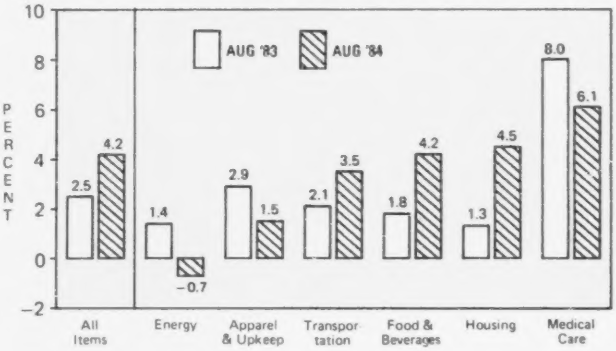
To be sure, the rate of inflation has picked up during this past year from the 2½ percent pace posted in the year ending in August, 1983 (see chart). This has occurred despite the dampening effects of lower energy prices and the strong dollar which has held down the cost of imported goods. But while August's rise—the largest since last April—was broad-based, some of the biggest contributors to higher prices are expected to be only short-lived. What is more, there is little that should provoke a sharp acceleration in inflation over the near term, considering the recent slowing in the pace of business.

Food prices are probably of greatest concern to most people since more than one-fifth of the average consumer's budget is devoted to purchases of food and beverages. Although this component was the single largest contributor to August's uptick in inflation, it reflected volatility in farm prices. Retail food prices were driven up by a 13 percent rise in vegetable prices, resulting from temporary shortages of lettuce and tomatoes. But a look at prices farmers received in September for their raw agricultural products should allay fears that these price increases will continue. Not only did overall prices drop nearly three percent, month-over-month (not adjusted for seasonal variation), but precisely those categories which showed the biggest advances in August, posted the steepest declines in September. For example, more than half of August's rise in vegetable prices was erased in September, with the price of tomatoes falling 25 percent, month-over-month, returning back down to July's level.

. . . Rising Food And Energy Costs . . .

While vegetable prices should not be a problem in the coming months, meat prices are expected to exert some upward pressure on food budgets. The reduction in herds initiated by ranchers last summer in response to high feed costs, which led to deteriorating profit margins, is starting to show up in reduced quantities of meat being sent to the marketplace. Beef production, for example, was four percent higher in the first six months of 1984 than during the comparable period a year ago. By September, however, the year-over-year comparison probably turned negative—the first time this has happened in 18 months. In the first half of 1985 the Department of Agriculture expects beef supplies to tighten by as much as eight percent, year-over-year, suggesting higher prices.

CONSUMER PRICE INDEX AND SELECTED COMPONENTS
(PERCENT CHANGE FROM A YEAR AGO)



. . . Low Inflation . . .

To be sure, fluctuations in grain, meat, vegetable or dairy prices at the farm gate do not always translate into corresponding changes at the retail level. This is because prices of foods at the farm gate represent only about one-third of the bill at the grocery store. The difference is the "marketing bill", which includes processing, assembling, transportation and distribution of food products (Financial Digest—April 2, 1984). But although the marketing share varies greatly among different foods, it cushions—albeit in the short run—the wide fluctuations in agricultural prices. Reflecting the low rate of retail food price inflation in the economy during the

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past year, this marketing portion has shrunk slightly, thus contributing to the moderate rise in food prices.

Apparel and upkeep prices posted the largest monthly increase in August since March, 1980, as retailers raised prices for fall and winter wear more than usual. But despite August's 0.9 percent month-over-month jump, clothing prices are now only 1.5 percent higher than they were a year ago. However, early reports from retailers are indicating that a lot of August's price increases may not stick. Disappointed by the slower than anticipated traffic in their stores, many retailers have already started discounting their merchandise—sacrificing profit margins to prevent an unwanted buildup in inventories.

. . . Is Here To Stay

Although for most people medical care represents only a small portion of their yearly outlays, as the population ages—and the need for health care grows—medical costs are becoming of greater concern. It is therefore encouraging to know that the rise in health care costs in the year ending in August, 1984 was the smallest in more than 10 years. The greatest strides were achieved in slowing the soaring hospital room costs which as recently as 2½ years ago were increasing at a 17 percent rate, year-over-year. Now

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit	10/3/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	162.359	– 2.471	+ .496
Loans to Depository Inst.	6.173	– .723	+ 4.760
Float	.499	+ .612	– .339
Total Reserve Bank Credit	181.147	+ .197	+ 8.293
Treasury Deposits with Federal Reserve Banks	7.742	– .668	– 4.584
Currency in Circulation	175.673	+ .291	+12.560
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.671	+ .835	+ 6.392
Member Bank Reserves:	9/26/84		
Total Reserves Held	37.660	– .462	+ 2.171
Excess (Deficiency)	.487	– .159	+ .038
Net Free Reserves	.040	– .222	+ .126
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1 (9/24/84)	547.0	+ 1.7‡	+ 5.7‡
M2 (August '84)	2,289.8	+ 5.6	+ 7.2
M3 (August '84)	2,867.6	+ 7.5	+ 9.6
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/5/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.70%	9.85%	10.00%
* Federal Agencies	10.49	10.88	11.53
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	11.30	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.97	11.15	11.60

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.50%	Nov.	10.75%
15- 29 days	10.25	Dec.	10.75
30- 59 days	10.63	Jan.	10.75
60- 89 days	10.50	Feb.	10.75
90-179 days	10.40	Mar.	10.75
180-239 days	10.30	Apr.	10.75
240-270 days	10.40		

‡ Industrial Paper—Prime			
30- 89 days	10.50%	† Federal Funds	
90-120 days	10.60	Effective Rate	10.35%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,645	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,639	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.1	10.1	9.4
Change in Consumer Prices (new series)*	Aug '84	6.0%	3.6%	4.8%
Change in Producer Prices*	Aug '84	– 1.2%	3.6%	4.8%
Civilian Employment (Thousands of Persons)†	Sep '84n	105,239	104,969	101,876
Unemployment as % of Civilian Labor Force†	Sep '84n	7.4%	7.5%	9.2%
Personal Income*	Aug '84	$ 3,043	$ 3,027	$ 2,760
Leading Indicators Composite Index (1967=100)†	Aug '84	164.5	163.7	158.9
Industrial Production Index (1967=100) †	Aug '84	166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84	–$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84	1,537	1,763	1,873
New Construction Expenditures*	Aug '84n	$ 311.7	$ 311.2r	$ 278.0
Total Business Inventories †	Jul '84	$ 551.3	$ 546.8	$ 501.4
Total Business Sales †	Jul '84	$ 411.0	$ 414.1	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

they are rising at less than half that pace.

Newly proposed regulations have changed both the cost and pricing structure of the health care industry, shifting the responsibility for cost control from the government to the hospital. Altering the reimbursement guidelines for Medicare-Medicaid patients from a percentage of costs incurred to a fixed amount per procedure has already resulted in tighter cost control, although this program will not be fully implemented until 1987. For example, after 23 years of average gains of about five percent per year, the number of hospital workers fell in the last 12 months by 50,000 or 1.6 percent. In addition, there should soon be severe price competition for traditional products where there is more than one supplier, as well as sharply improved demand for new products that can save time and money.

During the past 12 months, the decline in petroleum prices has moderated the rise in the overall rate of inflation. But although world and domestic supplies are plentiful—suggesting price stability in the near future—the biggest declines are probably behind us. The glut of gasoline in the United States—responsible for last summer's price decline—has been reduced as inventories are now down to about the same level as last year. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/19/84)	157,065	+ 86	+10,661
New York City (9/26/84)	34,924	– 389	+ 3,222
Commercial Paper (9/26/84)	227,127	+ 667	+50,289

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/84)	246,111	+ 1,680	+29,533
New York City (9/26/84)	64,119	– 1,255	+ 7,187

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/19/84)	626,178	+ 1,975	+95,132
New York City (9/26/84)	139,650	– 1,742	+22,270

Financial Markets

	Friday 10/5/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.56%	– .03	+ 1.66
180-Day Bills†	10.96	– .03	+ 1.66
Longest Bills†	11.33	+ .03	+ 1.65
Recent Issues:			
$11^{7}/_{8}$s 9/30/86	11.96	– .01	
$13^{5}/_{8}$s 6/30/88	12.35	– .20	
$12^{5}/_{8}$s 8/15/94	12.46	+ .09	
$12^{1}/_{2}$s 8/15/14	12.28	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (10/4/84)	10.34%	+ .19	+ .85
Blue List Total ($ Million)	$1,755	– $ 9	+ $ 352
30-Day Visible Supply ($ Million)	$3,694	– $411	+ $1,284
Total	$5,449	– $420	+ $1,636
Corporates:			
Moody's Aa Composite (10/4/84)	13.27%	+ .15	+ .84
30-Day Visible Supply ($ Million)	$1,455	+ $645	+ $ 80
Stocks:			
Dow-Jones Averages:			
Industrials	1,182.53	– 24.18	– 89.62
Transportation	515.03	– 2.58	– 71.67
Utilities	138.28	– .88	– .69
65 Stocks	467.36	– 6.68	– 39.01
Standard and Poor's 500 Stocks	162.68	– 3.42	– 8.12
N.Y.S.E. Composite Index	93.89	– 1.88	– 4.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,128	– 3,154	– 15,228

* 46% Taxable equivalent 19.15%.

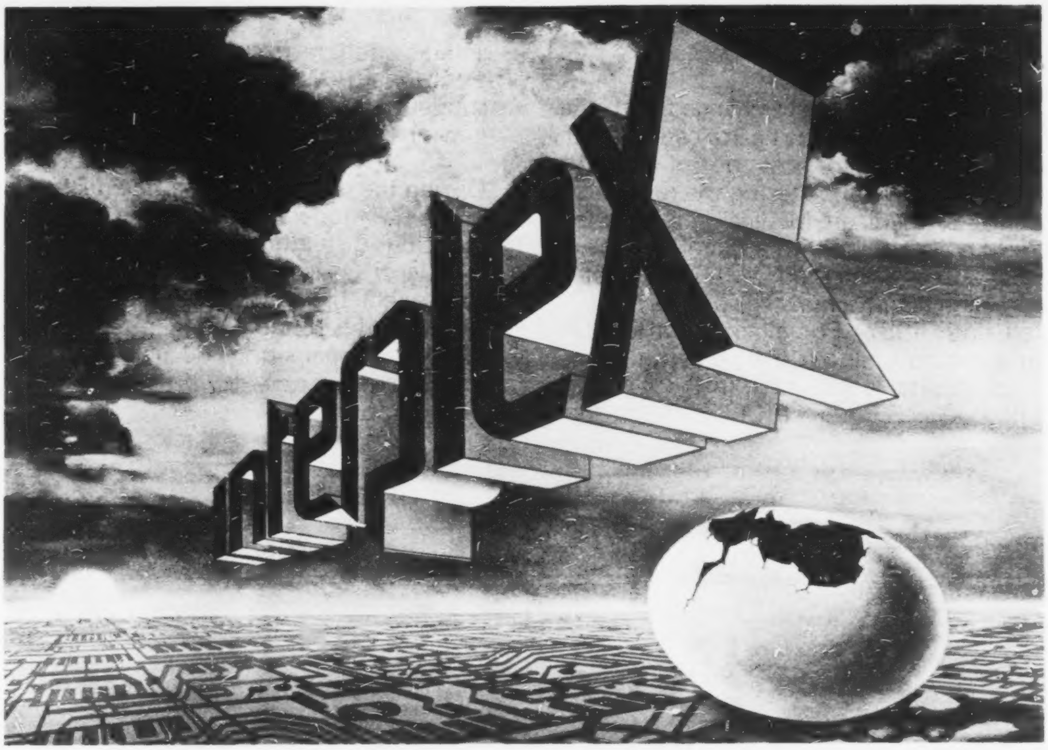
† Bond equivalent.

International Rates

	Friday 10/5/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	10.38%	11.25%
1 month	10.94	11.06
3 month	11.38	11.38
6 month	11.56	11.56
1 year	11.88	11.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.50%
Long Term (7 to 15 yrs.)	12.55	12.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/5/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01629	61.40
Canada	.7605	1.3150
Denmark	.09133	10.9490
France	.1076	9.2900
Germany	.3302	3.0282
Italy	.0005323	1878.70
Japan	.004053	246.73
Mexico	.005025	199.00
Netherlands	.2928	3.4158
Switzerland	.3986	2.5088
U.K.	1.2438	.8040



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 15, 1984 VOLUME XXI, NUMBER 36

Slower Growth . . .

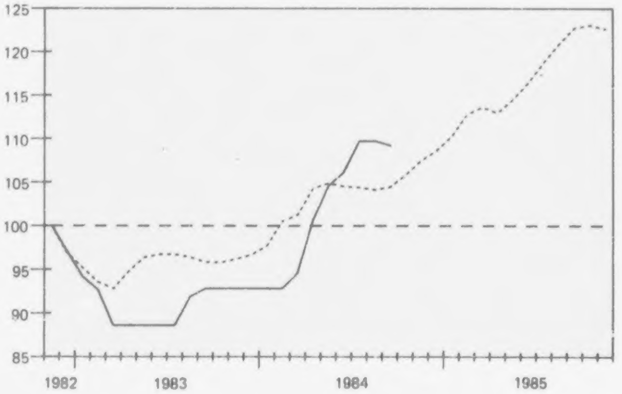
With the onset of autumn throughout the Northern Hemisphere, both thermometer readings and interest rates are moving lower. Despite earlier fears that rates would be climbing at this stage of the business cycle in response to the one-two punch of a virtually insatiable Federal credit appetite and rising private credit demands, quite the opposite seems to be underway. Fueled by a widespread belief that the Federal Reserve has eased its monetary policy stance, a midsummer pause in the torrid pace of business and the persistence of exceptionally low rates of inflation (Financial Digest—October 5, 1984), rallies in both the money and bond markets have recently sent securities prices higher and yields lower across the entire maturity spectrum.

But while interest rates should remain stable, if not actually drift lower in coming weeks, it still appears a good bet that higher rates are in store for 1985. This is because in the absence of the onset of another recession, it would be most unusual for interest rates to have reached their cyclical peaks this early in the business cycle. Rather, this occurs toward the end of business expansions due to an intensification of credit demands economy-wide, and the refusal of the central bank to accommodate them fully.

One reason for the recent shift in market perceptions, not to mention the anticipated course of interest rates, is the accumulation of evidence that the business expansion is slowing. Trends in employment and hours worked, factory orders and industrial production, as well as in the forward-looking index of leading economic indicators all suggest that a perceptible slowing in the pace of business occurred during the summer. Whereas the economy expanded at an 8½ percent seasonally adjusted annual rate in first-half 1984, by the third quarter of this year, the rate of growth slowed to an annual clip of only around 3½ percent.

What this has done is dampen long-voiced fears that the economy was about to "overheat," with inflation spiking higher—and the Fed tightening the money and credit reins in order to forestall just such a train of events. But while this growth pause was instrumental in pushing down interest rates—not to mention prices at the producer level, which fell in September for the second month in a row—tomorrow's business trends may push interest rates higher.

PRIME RATE
CURRENT RECOVERY (LINE), AVG. OF 6 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



Take, for example, the state of the consumer. With household confidence remaining bright, buying intentions strong and personal incomes advancing at a good-sized clip, few obstacles stand in the way of higher levels of consumer spending—as evidenced by September's hefty jump of 1.6 percent in retail sales following declines in each of the two previous months. So, too, there are few signs in the business sector that any prolonged spending retrenchment is underway. Capital outlays alone are now advancing at about twice the rate usually experienced at this stage of the business cycle. What is more, with inventories remaining lean relative to sales, any further pickup in consumer spending may well send businessmen scurrying for stocks—fueling even further the pace of economic activity.

. . . Plus A More Generous Fed . . .

This suggests that the midsummer growth pause may be just about over and, if it is, concerns over higher, not lower interest rates will revive. Indeed, as shown in the chart above, such short-term interest rates as the banks' prime lending rate usually rise throughout the expansion phase of the business cycle. Since it is

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unlikely that the current recovery has reached its high-water mark, it is equally unlikely—if the past is any guide—that short-term interest rates have, too.

In the interim, with the pace of business slowing and inflation at the producer level virtually nonexistent, the credit markets are indulging in another vigorous round of speculation as to the near-term course of monetary policy: Will there be less squeeze and more ease? After all, the growth of the M1 money supply was virtually flat all summer long and now stands some $3 billion below the midpoint of its 1984 target range. The year-to-date growth of the M2 money supply as well has moved toward the bottom of its annual target range—suggesting, if nothing else, that the behavior of the money supply numbers does indeed give the Fed wide latitude for some easing of its policy stance.

Against this backdrop, the generous provisioning of reserves to the banking system by the Fed in recent weeks has, if nothing else, certainly led to the appearance of a policy switch toward ease. But, with business activity settling into a slower, albeit more sustainable pace, prices essentially stable and the money supply numbers well behaved, there was actually little reason for the Fed to do otherwise. What is more, the stepped-up pace of reserve provisioning, which may well have been at least partly designed to offset potential seasonal strains on bank reserves, coincided with a pronounced tapering off of short-term business credit demands—

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/10/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.458	– 2.901	+ .083
Loans to Depository Inst.	6.157	– .016	+ 4.886
Float	.632	+ .133	– .639
Total Reserve Bank Credit	178.365	– 2.782	+ 8.289
Treasury Deposits with Federal Reserve Banks	4.642	– 3.100	– 3.986
Currency in Circulation	177.071	+ 1.398	+12.422
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.909	+ .238	+ 7.283
	10/10/84		
Member Bank Reserves:			
Total Reserves Held	38.176	+ .479	+ 3.755
Excess (Deficiency)	1.089	+ .603	+ .360
Net Free Reserves	.644	+ .605	+ .405

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (10/1/84)	548.3	+ 2.4‡	+ 5.7‡
M2 (September '84)	2,304.7	+ 5.8	+ 7.3
M3 (September '84)	2,885.4	+ 6.9	+ 9.4
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/12/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.55%	9.65%	10.75%
* Federal Agencies	10.53	10.76	11.42
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	11.11	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.70	10.85	11.40

‡Finance Company Paper—Prime	
5- 14 days	10.10%
15- 29 days	10.33
30- 59 days	10.38
60- 89 days	10.42
90-179 days	10.45
180-239 days	10.45
240-270 days	10.45

‡* Bankers' Acceptances	
Nov.	10.45%
Dec.	10.45
Jan.	10.55
Feb.	10.60
Mar.	10.70
Apr.	10.60

‡Industrial Paper—Prime	
30- 89 days	10.20%
90-120 days	10.00

†Federal Funds Effective Rate 9.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,645	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,639	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.1	10.1	9.4
Change in Consumer Prices (new series)*	Aug '84	6.0%	3.6%	4.8%
Change in Producer Prices*	Sep '84n	– 2.4%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons)†	Sep '84	105,239	104,969	101,876
Unemployment as % of Civilian Labor Force†	Sep '84	7.4%	7.5%	9.2%
Personal Income*	Aug '84	$ 3,043	$ 3,027	$ 2,760
Leading Indicators Composite Index (1967=100)†	Aug '84	164.5	163.7	158.9
Industrial Production Index (1967=100) †	Aug '84	166.2	165.8	151.8
Net Change in Consumer Installment Credit †	Jul '84	$ 7.11	$ 7.83	$ 3.71
U.S. Merchandise Trade Balance †	Aug '84	–$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Aug '84	1,537	1,763	1,873
New Construction Expenditures*	Aug '84	$ 311.7	$ 311.2	$ 278.0
Total Business Inventories †	Jul '84	$ 551.3	$ 546.8	$ 501.4
Total Business Sales †	Jul '84	$ 411.0	$ 414.1	$ 370.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

setting the stage for lower interest rates.

. . . Equals Lower Interest Rates

With merger and acquisition activity moderating and growth slowing, the effects on commercial and industrial loan demand were not long in coming. Over the past three months, commercial and industrial loans outstanding rose by about $2½ billion, or an approximately four percent annual rate. This is well below the almost $12½ billion, or 21½ percent annual rate of rise posted over the immediately preceding three-month period. And, although the issuance of nonfinancial company commercial paper remains brisk, the anemic growth of C & I loan demand in recent months reduced the need for bank reserves at precisely the same time that the Fed was supplying more of them. In fact, the slowing of the pace of business borrowings was undoubtedly the key ingredient in taking some of the heat off the credit markets.

Putting all this together—the slowing pace of business and business borrowings, little or no inflation, well behaved money supply numbers and a tolerance by the Federal Reserve of lower interest rates—and it is not surprising that money market rates have dipped. But business activity and private credit needs are likely to soon perk up. And there is a hefty slate of Treasury borrowings on tap. If the Fed is unwilling to accommodate fully all of these growing credit needs, then higher interest rates appear likely.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/26/84)	159,703	+ 2,605	+12,571
New York City (10/3/84)	34,868	− 56	+ 4,166
Commercial Paper (10/3/84)	227,659	+ 468	+50,749

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/26/84)	244,040	− 2,028	+28,753
New York City (10/3/84)	64,942	+ 823	+ 7,124

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/26/84)	623,379	− 2,809	+93,001
New York City (10/3/84)	140,870	+ 1,368	+20,498

Financial Markets

	Friday 10/12/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.30%	− .26	+ 1.25
180-Day Bills†	10.70	− .26	+ 1.25
Longest Bills†	11.00	− .33	+ 1.17
Recent Issues:			
$11\frac{7}{8}$s 9/30/86	11.68	− .28	
$13\frac{5}{8}$s 6/30/88	12.05	− .30	
$12\frac{5}{8}$s 8/15/94	12.25	− .21	
$12\frac{1}{2}$s 8/15/14	12.10	− .18	
Municipals:			
Bond Buyer—20 Bond Index* (10/11/84)	10.36%	+ .02	+ .69
Blue List Total ($ Million)	$1,631	− $124	+ $ 195
30-Day Visible Supply ($ Million)	$3,395	− $299	+ $1,181
Total	$5,026	− $423	+ $1,376
Corporates:			
Moody's Aa Composite (10/11/84)	13.25%	− .02	+ .69
30-Day Visible Supply ($ Million)	$ 849	− $606	− $ 893
Stocks:			
Dow-Jones Averages:			
Industrials	1,190.70	+ 8.17	− 72.82
Transportation	517.40	+ 2.37	− 63.15
Utilities	140.75	+ 2.47	+ 3.37
65 Stocks	471.06	+ 3.70	− 31.00
Standard and Poor's 500 Stocks	164.18	+ 1.50	− 5.68
N.Y.S.E. Composite Index	94.79	+ .90	− 3.21
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,410	− 3,718	+ 7,060

* 46% Taxable equivalent 19.19%.

† Bond equivalent.

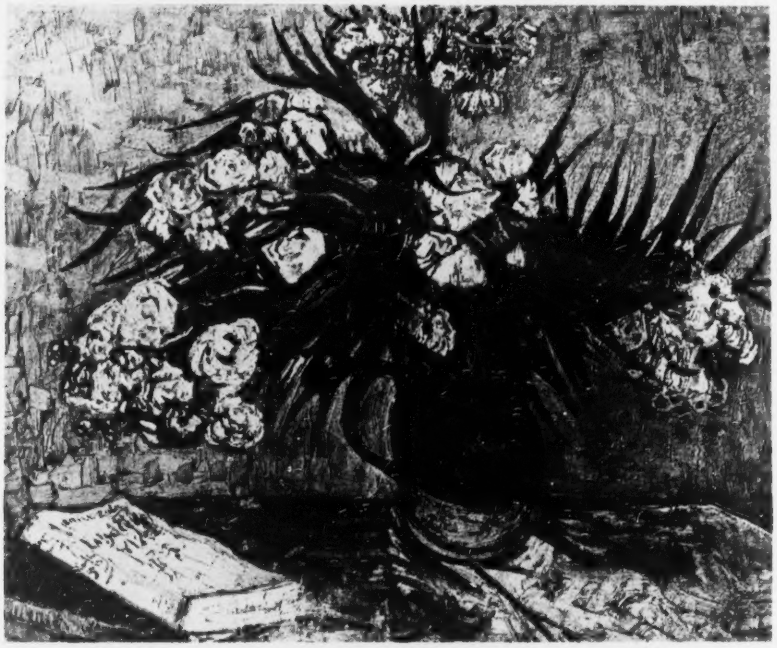
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/12/84	Week Ago
Overnight	9.88%	10.38%
1 month	10.56	10.94
3 month	11.06	11.38
6 month	11.31	11.56
1 year	11.69	11.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.60%
Long Term (7 to 15 yrs.)	12.60	12.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/12/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01593	62.77
Canada	.7581	1.3191
Denmark	.08905	11.2300
France	.1051	9.5175
Germany	.3221	3.1050
Italy	.0005219	1916.00
Japan	.004040	247.55
Mexico	.005000	200.00
Netherlands	.2858	3.4990
Switzerland	.3923	2.5490
U.K.	1.2260	.8157

VAN GOGH



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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, OCTOBER 22, 1984 VOLUME XXI, NUMBER 37

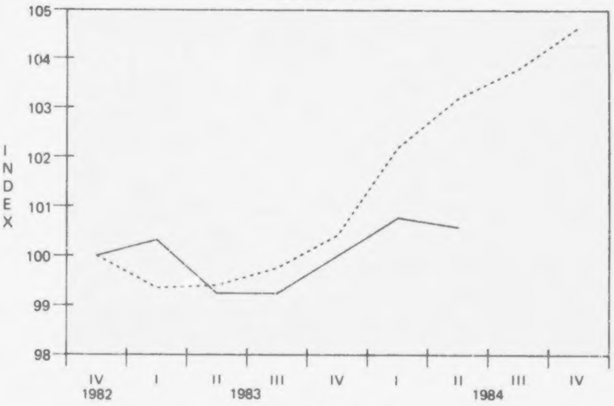
Wage Increases Remain Modest . . .

As the economy roared ahead in the first half of 1984 and businessmen quickly added to their payrolls, concerns developed as to whether or not the modest rate of wage increases stemming from the past recession could be sustained. But recent labor agreements indicate that these doubts have been misplaced. While pay concessions do not dominate organized labor's settlements the way they did a year or two ago, workers have by and large not been winning major wage hikes, either.

The recent recession seems to have weakened organized labor's muscle. Worried about the growing ranks of workers displaced by automation, deregulation of many industries, inroads by foreign producers and increased competition from nonunionized companies, unions have placed strong emphasis on the preservation of jobs at the expense of higher wages and benefits. So while settlements have traditionally reflected overall economic conditions in general, and the health of individual industries in particular, major collective bargaining contracts settled in the first half of 1984 in private industry resulted in average wage adjustments of only 2.6 percent in the first contract year, down from about four percent in the previous six months. The last time the same parties negotiated, in most cases two to three years ago, average wage increases were nearly three times as high.

Despite an eight percentage point decline in the unemployment rate of construction workers since the beginning of the recovery and the stepped-up pace of business spending on nonresidential structures, there were no wage increases on balance for most construction workers—with many forced to settle for pay cuts. This is the first time for this industry since the Bureau of Labor Statistics started keeping records in 1968. The unemployment rate for construction workers is still high—close to 14 percent. In addition, the unions no doubt realized that relatively high mortgage interest rates continue to cut into people's ability to afford a home, thus putting a lid on residential construction. High rates may soon restrain nonresidential spending as well. The unions' problems in this industry have been further exacerbated by stepped-up competition from nonunion contractors. Other unions sustaining first-year wage decreases in early 1984 were primarily airline, transportation and food stores.

NONFARM UNIT LABOR COST INDEX:
CURRENT RECOVERY (LINE), AVG. OF 6 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



. . . As Job Security Takes The Lead

Most recently, job security was the primary goal in the United Auto Workers union negotiations. The companies agreed to establish sizable funds to assist workers laid off due to automation or transfer of work to outside suppliers. Their new contract provides only a modest 2¼ percent average base wage increase in the first year and 2¼ percent lump sum payments in the second and third years. Base wage rates, used to determine such benefits as overtime and vacation pay, will not be affected by the lump sum payments.

Reflecting the weak state of the United Mine Workers, the union's bargaining power—damaged by slack demand for coal and stiff nonunion competition—the new contract accepted in September provided only a 10¼ percent wage increase over the next 40 months. Importantly, this was the first time since 1964 that they did not strike. The last agreement ratified more than three years ago provided pay increases nearly three times as large and was achieved only after a lengthy 2½ month strike.

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Strong Productivity Gains . . .

The deceleration in wage increases has not been confined only to union pay. It has occurred in the nonunion sector as well. After reaching a peak in early 1981—at nearly nine percent year-over-year—nonunion wage increases shrunk to five percent in second-quarter 1984. Thus, the overall rise in average hourly earnings (which includes union and nonunion workers) so far this year is down about two-thirds from the peak rate of advance in early 1981 and so far this year is the slowest in nearly 20 years.

When productivity gains are factored in, labor costs per unit of output has risen only six-tenths of one percent since the beginning of the current recovery. This represents about one-eighth the average rise posted in the first six quarters of those earlier postwar business expansions which lasted this long (see chart on page 1). Plainly, keeping labor costs low is crucial to keeping inflation in check, since they represent two-thirds of business operating costs.

. . . Flatten Unit Labor Costs

Labor costs are also an important determinant of the longer-term trend in the "underlying" or "core" rate of inflation. After peaking at close to ten percent in 1981—measured by the annual rate of rise

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/17/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.315	– 2.143	– .261
Loans to Depository Inst.	6.822	+ .665	+ 6.245
Float	1.417	+ .864	– .313
Total Reserve Bank Credit	177.849	– .437	+ 9.009
Treasury Deposits with Federal Reserve Banks	3.702	– 940	– 1.556
Currency in Circulation	177.249	+ .219	+12.180
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.107	– 1.302	+ 2.222
	10/17/84		
Member Bank Reserves:			
Total Reserves Held	38.120	+ .422	+ 3.699
Excess (Deficiency)	.957	+ .431	+ .228
Net Free Reserves	.512	+ .433	+ .273
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (10/8/84)	545.6	+ 1.4‡	+ 5.3‡
M2 (September '84)	2,304.7	+ 5.8	+ 7.3
M3 (September '84)	2,885.3	+ 6.9	+ 9.4
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/19/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.70%	8.90%	9.05%
* Federal Agencies	10.13	10.65	11.07
* Project Notes—Taxfree (46% Taxable Equivalent)	11.02	11.11	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.00	10.25	11.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.57%	Nov.	9.75%
15- 29 days	9.68	Dec.	9.75
30- 59 days	9.74	Jan.	9.80
60- 89 days	9.78	Feb.	9.85
90-179 days	9.80	Mar.	9.85
180-239 days	9.80	Apr.	9.85
240-270 days	9.80		

‡Industrial Paper—Prime			
30- 89 days	9.38%	†Federal Funds	
90-120 days	9.23	Effective Rate	10.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84n	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84n	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84n	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Aug '84	6.0%	3.6%	4.8%
Change in Producer Prices*	Sep '84	– 2.4%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons)†	Sep '84	105,239	104,969	101,876
Unemployment as % of Civilian Labor Force†	Sep '84	7.4%	7.5%	9.2%
Personal Income*	Sep '84n	$ 3,071	$ 3,045r	$ 2,785
Leading Indicators Composite Index (1967=100)†	Aug '84	164.5	163.7	158.9
Industrial Production Index (1967=100) †	Sep '84n	165.1	166.1r	153.8
Net Change in Consumer Installment Credit †	Aug '84n	$ 6.00	$ 7.11	$ 4.09
U.S. Merchandise Trade Balance †	Aug '34	–$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84n	1,676	1,539r	1,679
New Construction Expenditures*	Aug '84	$ 311.7	$ 311.2	$ 278.0
Total Business Inventories †	Aug '84n	$ 556.0	$ 551.4r	$ 504.3
Total Business Sales †	Aug '84n	$ 410.7	$ 411.4r	$ 373.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

in labor and capital costs per unit of output—this core rate is now running close to five percent, year-over-year. An important contributor to this slowing has been the sharp increase in productivity. Second quarter productivity advanced four percent at a seasonally adjusted annual rate in the business sector as output rose 10.1 percent and the number of hours worked increased only 5.8 percent. This was the eighth quarter of business productivity growth in a row—the longest string of increases in more than 15 years.

But hopefully these improvements in labor efficiency are more than just a cyclical revival. It seems that many factors which hindered productivity growth in the 1970s are now working in its favor. For example, business investment is booming. The Commerce Department's latest reading of corporate capital spending plans indicates a rise of 14 percent is in store for this year, on the heels of annual declines both in 1983 and 1982. In nominal terms, this year's projected increase would be the most since 1979, while it would exceed all annual gains since 1966, when adjusted for inflation. In addition, new regulatory restraints seem to be coming on more slowly, while the baby boomers have matured and are no longer the inexperienced teenagers of the 1970s.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/3/84)	158,978	– 722	+15,134
New York City (10/10/84)	34,319	– 549	+ 3,388
Commercial Paper (10/10/84)	230,637	+ 2,414	+52,944

Bank Loans
(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest	Change Since	
Weekly Reporting Large Commercial Banks	Week	Week Ago	Year Ago
Nationwide (10/3/84)	246,058	+ 2,013	+29,161
New York City (10/10/84)	65,097	+ 155	+ 6,923

	Total Loans and Leases Gross Adjusted		
	Latest	Change Since	
	Week	Week Ago	Year Ago
Nationwide (10/3/84)	627,194	+ 3,944	+91,486
New York City (10/10/84)	142,678	+ 1,808	+22,066

Financial Markets

	Friday 10/19/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.03%	– .27	+ 1.23
180-Day Bills†	10.70	–0–	+ 1.45
Longest Bills†	11.00	–0–	+ 1.35
Recent Issues:			
$11^{5}/_{8}$s 10/31/86 (When Issued)	11.48	NA	
$13^{5}/_{8}$s 6/30/88	12.05	–0–	
$12^{5}/_{8}$s 8/15/94	12.25	–0–	
$12^{1}/_{2}$s 8/15/14	11.82	– .28	
Municipals:			
Bond Buyer—20 Bond Index* (10/18/84)	10.24%	– .12	+ .96
Blue List Total ($ Million)	$1,579	– $ 52	+ $ 143
30-Day Visible Supply ($ Million)	$4,132	+ $737	+ $2,824
Total	$5,711	+ $685	+ $1,451
Corporates:			
Moody's Aa Composite (10/18/84)	13.15%	– .10	+ .69
30-Day Visible Supply ($ Million)	$ 390	– $459	– $ 710
Stocks:			
Dow-Jones Averages:			
Industrials	1,225.93	+ 35.23	– 22.95
Transportation	542.74	+ 25.34	– 47.56
Utilities	144.80	+ 4.05	+ 5.98
65 Stocks	487.34	+ 16.28	– 14.66
Standard and Poor's 500 Stocks	162.68	– 1.50	– 3.27
N.Y.S.E. Composite Index	96.86	+ 2.07	+ 1.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	121,964	+42,554	+ 30,966

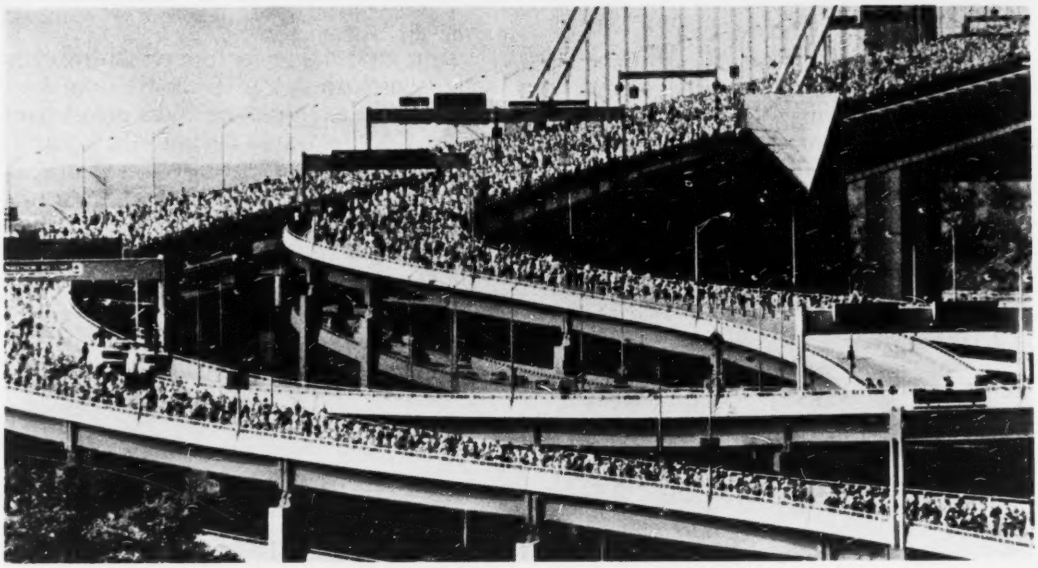
* 46% Taxable equivalent 18.96%.

† Bond equivalent.

International Rates

	Friday 10/19/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.63%	9.88%
1 month	10.00	10.56
3 month	10.31	11.06
6 month	10.56	11.31
1 year	11.13	11.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.60%
Long Term (7 to 15 yrs.)	12.35	12.60

FOREIGN EXCHANGE SPOT RATES **New York Opening (10/19/84)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01606	62.25
Canada	.7559	1.3229
Denmark	.08797	11.3680
France	.1058	9.4506
Germany	.3247	3.0797
Italy	.0005246	1906.20
Japan	.004034	247.91
Mexico	.004975	201.00
Netherlands	.2879	3.4736
Switzerland	.3946	2.5343
U.K.	1.1940	.8375



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and Business Indicators

MONDAY, OCTOBER 29, 1984
VOLUME XXI, NUMBER 38

Profits: Now You Don't See Them . . .

The pronounced moderation in the pace of business activity in the third quarter will, no doubt, be reflected in third-quarter corporate profits. The earlier surge in business earnings had been a hallmark of the current business expansion. Pretax profits rose almost 60 percent in the first six quarters of this recovery, outrunning by far the average gain of less than 40 percent registered in the other postwar recoveries over the same period. This profit surge is even more outstanding, given the low rates of inflation accompanying the current expansion. However, the Commerce Department report that inflation-adjusted gross national product increased at a lackluster seasonally adjusted annual rate of 2.7 percent in the July-September period—far slower than the 8½ percent annual rate of rise posted in the first half of this year—brought concerns that the strongest gains in corporate profits might be over.

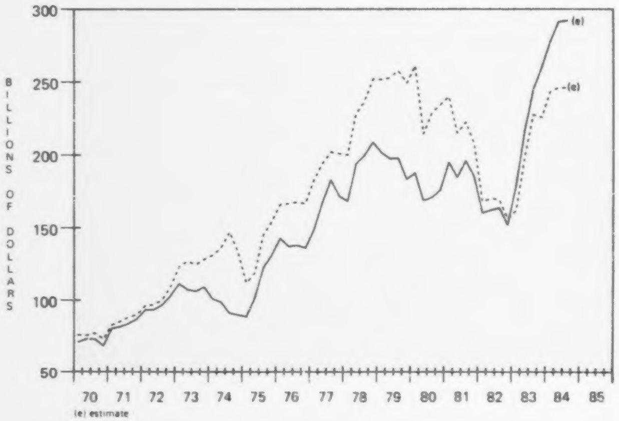
Although disappointing, this tapering in the growth of corporate profits is not unusual for this stage of the business cycle. As an economic expansion matures, companies approach fuller capacity utilization rates, putting upward pressure on costs. In fact, in the typical postwar recovery, pretax profits began to decline by the fifth quarter of the upturn.

What is more, in today's circumstances, the top-line profit figures do not adequately measure corporate earnings performance. For one thing, the change in the tax laws contained in the Economic Recovery Tax Act of 1981 permits companies to depreciate capital equipment much more rapidly than in the past. At the same time, the low rates of inflation during the past three years have slowed substantially the increases in the replacement cost of plant and equipment. As a result, reported depreciation expenses overstated replacement costs in 1982 for the first time in almost a decade, and by the third quarter of 1984, depreciation allowances overstated current replacement costs by almost $59 billion. Since depreciation set aside to replace plant and equipment is subtracted from corporate revenues, its overstated value has depressed pretax book profits.

. . . Now You Do . . .

Moreover, the quality of book profits has been enhanced due to the moderation of inflation. During periods of rapid price increases, book profits are overstated because many companies subtract from their revenues the value of inventories used in production based on their original cost. In other words, the amount subtracted from earnings is understated because inflation has increased the cost at which used inventories must be replaced. In 1980, for example, when producer prices surged ahead by more than 13 percent, inventory profits alone accounted for almost 20 percent of pretax book profits. Lower inflation in the last few years has diminished accounting distortions, reducing such "illusory" inventory profits. By the second quarter of 1984, inventory profits represented only three percent of pretax profits.

PRETAX OPERATING PROFITS (LINE) VS. BOOK PROFITS (DOT)



The performance of corporate America looks brighter if measured by the operating profits. These are believed to be a more reliable gauge of profitability than book profits. This is because they exclude phantom inventory profits and are not distorted by either excessive or insufficient depreciation charges. As a result, in the last few years, the value of operating profits has exceeded book profits. While book profits today are still almost six percent below their peak reached in 1980, operating profits are now at an all-time high (see chart).

. . . But For Some Industries . . .

While the improved quality of earnings may provide some solace to company treasurers, it is book profits

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which receive the most attention. Here, the third quarter's results are mixed. Take for example, the nation's retailers. Non-auto retail sales were less than one percent higher at the end of the third quarter than they were three months earlier. What is more, consumer resistance prevented merchants from raising prices the way they usually do during the back-to-school season. In fact, many were forced to conduct early promotions, to increase traffic in their stores thus cutting into profit margins. This is reflected in the Consumer Price Index for commodities excluding food and energy, which rose only 4.1 percent in the third quarter compared with the same period a year ago—the lowest year-over-year advance for any quarter in more than ten years.

After being in the black for only one or two quarters, the U.S. steelmakers had a very disappointing third quarter. To be sure, the slack in orders and shipments is partially attributed to the anticipation of a strike by the United Auto Workers. Uncertainties regarding the negotiations caused businessmen in related industries to cut back on orders, not wishing to get caught with high inventories.

. . . Earnings Growth Did Slow

With new orders already tumbling in first-quarter, 1984, domestic steelmakers were forced to reduce production sharply, causing capacity utilization to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 10/24/84	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	156.645	− .670	− 1.413
Loans to Depository Inst.	5.645	− 1.177	+ 5.080
Float	.666	− .773	− .531
Total Reserve Bank Credit	175.155	− 2.717	+ 6.115
Treasury Deposits with Federal Reserve Banks	3.136	− .566	− 2.693
Currency in Circulation	176.392	− .857	+12.043
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.058	+ 3.951	+ 6.173
	10/24/84		
Member Bank Reserves:			
Total Reserves Held	37.779	− .303	+ 1.904
Excess (Deficiency)	.450	− .484	− .004
Net Free Reserves	.077	− .412	+ .042

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (10/15/84)	547.4	+ 0.7‡	+ 5.1‡
M2 (September '84)	2,305.3	+ 5.9	+ 7.3
M3 (September '84)	2,885.8	+ 7.0	+ 9.4
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/26/84	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.25%	9.50%	9.60%
* Federal Agencies	9.60	10.00	10.45
* Project Notes—Taxfree (46% Taxable Equivalent)	10.19	10.09	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.65	10.00	10.50

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.20%	Nov.	9.60%
15- 29 days	9.20	Dec.	9.65
30- 59 days	9.25	Jan.	9.80
60- 89 days	9.25	Feb.	9.85
90-179 days	9.08	Mar.	9.90
180-239 days	9.00	Apr.	9.90
240-270 days	9.00		

‡ Industrial Paper—Prime			
30- 89 days	9.25%	† Federal Funds	
90-120 days	9.08	Effective Rate	9.55%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Sep '84n	4.8%	6.0%	4.8%
Change in Producer Prices*	Sep '64	− 2.4%	− 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	Sep '84	105,239	104,969	101,876
Unemployment as % of Civilian Labor Force †	Sep '84	7.4%	7.5%	9.2%
Personal Income*	Sep '84	$ 3,071	$ 3,045	$ 2,785
Leading Indicators Composite Index (1967=100) †	Aug '84	164.5	163.7	158.9
Industrial Production Index (1967=100) †	Sep '84	165.1	166.1	153.8
Net Change in Consumer Installment Credit †	Aug '84	$ 6.00	$ 7.11	$ 4.09
U.S. Merchandise Trade Balance †	Aug '84	−$ 9.86	−$ 14.06	−$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84	1,676	1,539	1,679
New Construction Expenditures*	Aug '84	$ 311.7	$ 311.2	$ 278.0
Total Business Inventories †	Aug '84	$ 556.0	$ 551.4	$ 504.3
Total Business Sales †	Aug '84	$ 410.7	$ 411.4	$ 373.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

plummet below year-ago levels. It was 53 percent by the end of the third quarter, compared with 82 percent four months earlier. Average monthly shipments of steel products fell 12 percent to below six million tons per month in July and August from the second quarter's 6.7 million ton average. With only two exceptions—oil and gas, and aircraft—every industry which utilizes steel cut its orders. According to the industry, this was more than the usual summer dip. And as shipments fell, so did employment: During August, domestic steel industry payrolls fell to 236,000—their lowest level in a year and a half.

The surge in automobile manufacturers' profits was halted in the third quarter. Profits were dampened not only by the usual stepped-up summer expenditures on retooling for model changeovers, but also by slower new car sales, which slipped below eight million units at a seasonally adjusted annual rate for the first time since the fourth quarter of 1983. However, this decline was probably caused by shortages of popular models, rather than a decline in consumer demand. Finally, several labor disputes cut into profits. The United Auto Workers struck against the largest U.S. manufacturer while the Metal Workers' strike in Germany affected the German operations of two of the Big Three producers.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/10/84)	159,420	+ 240	+16,113
New York City (10/17/84)	34,417	+ 98	+ 3,440
Commercial Paper (10/17/84)	233,304	+ 2,668	+55,110

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/10/84)	246,476	+ 186	+28,710
New York City (10/17/84)	64,115	– 982	+ 6,264

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/10/84)	630,130	+ 2,806	+93,882
New York City (10/17/84)	139,847	– 2,731	+20,004

Financial Markets

	Friday 10/26/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.59%	– .44	+ .64
180-Day Bills†	10.03	– .67	+ .50
Longest Bills†	10.41	– .59	+ .63
Recent Issues:			
$11\frac{5}{8}$s 10/31/86 (When Issued)	11.23	– .25	
$11\frac{3}{8}$s 9/30/88	11.61	NA	
$12\frac{5}{8}$s 8/15/94	11.90	– .35	
$12\frac{1}{2}$s 8/15/14	11.72	– .10	
Municipals:			
Bond Buyer–20 Bond Index* (10/25/84)	10.05%	– .19	+ .24
Blue List Total ($ Million)	$1,543	–$ 36	+ $ 81
30-Day Visible Supply ($ Million)	$2,520	–$1,612	+ $ 40
Total	$4,063	–$1,648	+ $121
Corporates:			
Moody's Aa Composite (10/25/84)	12.93%	– .22	+ .38
30-Day Visible Supply ($ Million)	$1,280	+$ 890	– $470
Stocks:			
Dow-Jones Averages:			
Industrials	1,204.95	– 20.98	– 18.53
Transportation	522.98	– 19.76	– 53.63
Utilities	141.57	– 3.23	+ 2.31
65 Stocks	476.12	– 11.22	– 16.83
Standard and Poor's 500 Stocks	165.29	+ 2.61	+ 1.92
N.Y.S.E. Composite Index	95.34	– 1.52	+ 1.06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,386	–33,578	+ 6,610

* 46% Taxable equivalent 18.61%.

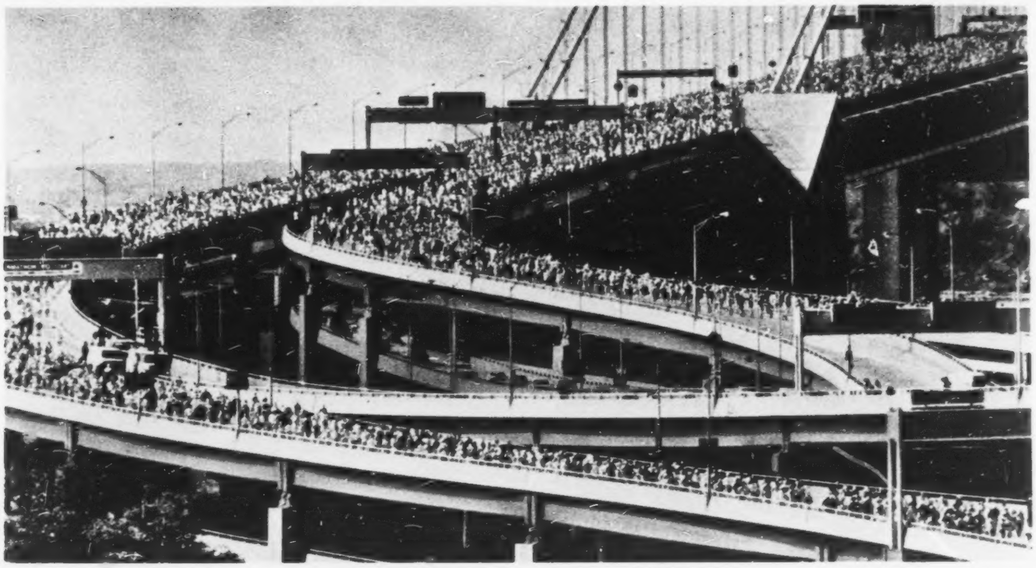
† Bond equivalent.

International Rates

	Friday 10/26/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.50%	9.63%
1 month	9.69	10.00
3 month	10.13	10.31
6 month	10.56	10.56
1 year	11.00	11.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.20%	12.25%
Long Term (7 to 15 yrs.)	12.30	12.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/26/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01634	61.19
Canada	.7602	1.3155
Denmark	.09132	10.9500
France	.1076	9.2950
Germany	.3300	3.0300
Italy	.0005313	1882.00
Japan	.004076	245.35
Mexico	.004843	206.50
Netherlands	.2926	3.4175
Switzerland	.4017	2.4895
U.K.	1.2208	.8191



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